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and

XVII

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)



VOLUME No. IV

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DATE January 29, 30, 31, 1945

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(Regina concluded in Volume V)

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ROYAL COMMISSION ON COOPERATIVES

Regina, Saskatchewan
(January 29-31; February 1-3, 1945)

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Regina, Saskatchewan, on Monday, January 29, 1945, with sittings continuing on January 30 and 31 and February 1, 2 and 3.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
)	
G.A. ELLIOTT)	
)	Commissioners
J. M. NADEAU)	
)	
J. J. VAUGHAN)	
Eugene T. Parker, K.C.		Counsel
Major H.D. Woods)	Associate
J.A. Chapdelaine)	Registrars
Colonel G. W. Ross		Executive Secretary

APPEARANCES:

W. B. Francis	Ten Co-operative Associations
G. S. Thorvaldson, K.C.	Income Tax Payers Association
A. Leslie Ham	Joint Stock Insurers - fire, automobile & Casualty business; Independent Dairies
W. Howard, K.C.	Private grain interests
R.H. Milliken, K.C.)	Saskatchewan Co-operatives
W.P. Fillmore, K.C.)	Private grain interests
L. K. Robinson	A.J. Wyman of Assiniboia
P. G. Hodges, K.C.	Independent milling in Sask.
S. P. Grosch, K.C.	Independent dairies
H. F. Thompson	Board of Trade & retail Lumbermen
G. H. Barr	Consumers Cooperative Refinery

Regina, Saskatchewan,
January 29, 1945.

The Commission met at 10.30 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: I think we may dispense with the usual formality of reading the terms of reference. Most Counsel, I have no doubt, are familiar with them, I have read them so often.

MR. PARKER: I have conferred with Counsel and others appearing on behalf of those who have filed briefs, and I think we have a sufficient number to keep us occupied for a couple of days. Beyond that we have not attempted to lay down any definite plan.

THE CHAIRMAN: We will adjourn at 12 o'clock today; one of our colleagues will be speaking to the Rotary Club.

MR. PARKER: I understand that the Hon. Mr. McIntosh is present, and he might wish to say a word to the Commission before we proceed.

HON. L. F. MCINTOSH (Minister of Co-operation and Co-operative Development, Saskatchewan): Your Lordship, members of the Royal Commission, ladies and gentlemen, I just wish to say that this is my first appearance in the Court House in the city of Regina. I might also add that I have not been a resident of Regina for any great length of time.

From my association over the last twenty years with the cooperative movement in the province of Saskatchewan I have come to have a full appreciation of the development of this movement. I appreciate all that has taken place throughout the country, in the little school house meetings, at meetings in the homes throughout the rural areas, and among the little groups that have met in their various

community halls for the purpose of discussing the problem of self help, the problem of assisting themselves in the work of building up a democratic institution. I have some experience of these little groups, with great hardship and sacrifice to themselves throughout the many months of adverse weather conditions that we have at times in this province, gathering for the purpose of discussing ways and means of helping themselves by democratic methods.

This has been going on in Saskatchewan ever since the turn of the present century, but particularly throughout the past twenty or twenty-five years, and during that time the people of the province have built for themselves a very wide network of consumer and producer cooperatives. They have done this as a result of their own efforts, as a result of their own study and initiative. They have built these cooperatives themselves from the ground up until today the cooperative movement in Saskatchewan, in which you are holding your investigation for the time being, affects well over 25 per cent of the total population of the province.

The records of the cooperative movement in the province of Saskatchewan speak for themselves. Unquestionably, in view of the very extensive development that has taken place in the cooperative field in this province, your deliberations during your short stay here, and your studies in other provinces of the Dominion, will be watched very closely by the people of Saskatchewan. We fully appreciate the responsible position which you now hold, Mr. Chairman. We are interested in the decision that your Commission may arrive at as a result of this investigation. So far as our province is concerned, we welcome you here, we welcome the members of your Commission, and we sincerely hope that the

presentations made by the people of Saskatchewan will be helpful to you and your Commission in arriving at a satisfactory decision on the question which that Commission has been set up to investigate. On behalf of the Government, your Lordship and members of the Royal Commission, I extend to you the very hearty welcome of the province of Saskatchewan.

THE CHAIRMAN: Mr. Minister, on behalf of the Commission I thank you for the warmth of your welcome, which is rather warmer than the weather, and for your clear outline of the cooperative movement in this province. We shall listen with great interest to the briefs which will here be submitted.

MR. PARKER: I understand that the Deputy Minister has a brief which he would like to present, and I think it is proper that he should begin, representing as he does the province.

A. H. TURNER,

Acting Deputy Minister,
Department of Co-operation and
Co-operative Development,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. For the purpose of the record, may I ask what position you occupy? A. I am the Acting Deputy Minister of the Department of Co-operation and Co-operative Development.

Q. What you are about to place before the Commission is a statement of facts which you want to put into the record? A. It is factual information.

THE CHAIRMAN: Do you propose to read the brief?

THE WITNESS: Yes. I consider it a great privilege to appear before this Commission and give these facts on behalf

of the Department I represent. Our brief reads as follows:

"Introduction:

"The cooperative movement in Saskatchewan has developed to meet the needs of an essentially agricultural province and the evolution of cooperative development in this province is therefore related to many of the changes which have taken place in Saskatchewan agriculture since 1900. For example, the first and most basic problem confronting Saskatchewan agriculture has been the need of getting their surplus of agricultural products to a market and among the first organized cooperative efforts were included attempts to achieve some control over the distribution of railway cars as between elevator companies and farmers who wished to ship grain direct.

"The purpose of this brief is not to deal in detail with all these matters since the representatives of cooperative organizations concerned will no doubt emphasize these points. This brief is intended rather to give a factual summary of the actual cooperative development in this province particularly for the years since special provincial government encouragement and supervision has been largely centralized in one branch or department of government. This period dates from the formation of the Cooperative Organizations Branch of the Department of Agriculture in 1913. Prior to 1913 the government of this province and the Dominion government, before the formation of the province, had been closely associated with the development of cooperatives. This association and assistance dates back to about 1896 when three cooperative creameries were established under the direction of the Dominion Dairy Commissioner.

"This presentation will deal with various aspects of cooperative development under four main headings:

1. Legislation
2. Encouragement given by governments to co-operatives in Saskatchewan.
3. The spread and diversity of types of co-operatives in Saskatchewan.
4. Statistical and other information for sample groups of cooperatives. This information will relate only to items which would appear likely to be of interest to the Royal Commission on cooperatives in formulating their report.

"It should also be stated that the Department of Co-operation and Co-operative Development of the Government of Saskatchewan will be pleased upon request to submit for the use of the Royal Commission on cooperatives any further information which is available in its files dealing with cooperative development in Saskatchewan for over thirty years.

"Legislation:

"The inclusion of certain allowances for and limitations of powers in accordance with cooperative principles and practices are usually the identification marks of legislation providing for the incorporation of cooperatives in Saskatchewan. Three Acts namely, the Co-operative Associations Act, The Co-operative Marketing Associations Act and the Credit Union Act form the general basis for incorporation for most of the cooperatives in this province. In addition from time to time certain cooperatives have been incorporated under special legislation in order that their powers might be more specifically outlined. It should

be noted that some of these special Acts were in operation before there was general legislation applicable to their form of organization.

"As most of those cooperatives operating under special Act of the Legislature will be presenting their own briefs to this Commission this brief will confine itself to the legal authority granted to cooperative associations incorporated under the three general Acts."

This morning I filed with your Registrar a copy of the latest information as to the number of cooperatives organized in Saskatchewan at December 31, 1944, indicating the number registered under various types of legislation. For the benefit of those who have not copies I may say that in December there were 1,020 of which 29 were under the Co-operative Marketing Associations Act; 13 under special legislation; 1 under the Joint Stock Companies Act of Saskatchewan; 3 under the Joint Stock Companies Act of the Dominion; 809 under the Co-operative Associations Act; 164 under the Credit Union Act; and 1 under other Saskatchewan legislation. Continuing:

"At the outset it should be stated that insofar as possible those responsible for cooperative legislation and administration have avoided the incorporation or registration of cooperatives in which the responsibility for the operation and control of the enterprise did not relate back to the individual member or patron performing his function in society either as a producer or consumer. There are a wide variety of simple and complex types of cooperatives operating under the legislation provided in Saskatchewan but in all cases the final responsibility for control rests with the individual producers or consumer who uses the business

jointly with his neighbours and friends.

"The Co-operative Associations Act which was passed originally in December, 1913, under the title The Agricultural Co-operative Associations Act is the broadest of the three Acts in general scope with respect to the purposes of incorporation. Up until 1928 it was necessary as a condition of incorporation under this Act to have at least 75 per cent of the membership engaged in agriculture."

Since that time that has not been necessary.

Continuing:

"The Co-operative Marketing Associations Act was assented to in January, 1926, and related particularly to associations organized to market agricultural products on a cooperative basis. It provided for the execution of marketing contracts as well as fairly broad powers for selling operations which might take place outside the province of Saskatchewan.

"The Credit Union Act was assented to in April, 1937, and relates to cooperative credit associations organized for the dual purpose of promoting thrift among the members and of granting a source of credit exclusively for 'provident and productive' purposes. Loans are made at moderate rates of interest.

"Democratic Control -- The Co-operative Associations Act allows any five or more persons who desire to associate themselves together in a cooperative association for any purpose permitted by the Act to file a memorandum of association."

It is simply the memorandum of association that is filed. I have not filed copies with the Commission but they are available if necessary. Continuing:

"It further provides that the directors have the right to grant admission to membership and to order the retirement of a member. In the former case it is possible to become a member through the accumulation of credits resulting from patronage dividends. In the latter case there are certain definite requirements as to the repayment of the members' equity as well as a right of appeal by the member to a general meeting of the association. The provisions for ordering the retirement of a member were first included in the Co-operative Associations Act in the year 1939.

"The Act has always provided for the plan of one member one vote regardless of the total equity of the member in the association. In certain special cases, such as those of branch stores, delegate voting may be allowed at the general meetings of the cooperative association. This exception was first introduced into the Co-operative Associations Act by an amendment in 1936 which allowed delegates to cast votes for their branch or district membership.

"Minors may become members but may not take office until they are 18. This provision was included in The Co-operative Associations Act for the first time in 1939.

"The Co-operative Marketing Associations Act requires ten or more persons to sign the memorandum of association for incorporation purposes.

"Under this Act the membership is limited to -

'Only persons who are engaged in the production of products to be handled by or through the association, including tenants of land used for the production of such products, and all landlords who receive as rent all or

part of the crop upon premises leased by them, and such other persons as obtain title to or possession of products by due process of law, and associations having as their object or one of their objects the buying and selling or marketing of products on the cooperative plan and which are incorporated or registered under the provisions of The Co-operative Associations Act or this Act or any former Act governing such associations, shall be admitted as members of an association.'

"In the original Act of 1926 no provision was made for persons who obtain title to or possession of products by due process of law or for cooperative associations to become members."

In other words, it was not quite as wide in the original as it is at the moment. Continuing:

"At such times as cooperative marketing association may specify in its by-laws it may re-purchase its own shares which may be offered for sale. The cash payment for these shares is required to be made to the member within one year after the direction has been given to re-purchase provided that this power shall not be exercised when the liabilities to the public by the association exceed 50 per cent of the total assets.

"The rule of one member one vote applies under The Co-operative Marketing Associations Act except where provision is made for voting by delegates.

"The Credit Union Act requires that ten or more persons resident in the province of Saskatchewan sign the memorandum of association in order that a credit union may be incorporated.

"Shares in the credit union may be re-purchased with the approval of the directors. In practice general approval is given to pay in and withdraw monies placed in share account on demand.

"Membership in a credit union is limited to groups of persons having a common bond of occupation or association or to groups within well-defined neighbourhood, community, rural or urban districts as well as other credit unions.

"Members may be expelled from the credit union by a two-thirds vote of the directors with the right of appeal to the next general meeting of the credit union.

"Similar to the other cooperative acts the principle of one member one vote is included in the Credit Union Act.

"Minors may be members of a credit union but cannot hold office as directors or as members of the Credit or Supervisory Committees.

"Apportionment of Surplus or Savings -- Section 25 of The Co-operative Associations Act states --

"(1) The directors, after paying expenses and making proper allowance for depreciation, shall apportion the surplus arising from the yearly business of the association as follows:

(a) by setting aside not less than ten per cent of the surplus for a reserve fund and so from year to year until the reserve fund is equal to at least ten per cent of the total assets of the association as shown in its audited financial statement for the fiscal year.

(b) in the case of an association having capital, if the supplemental by-laws so provide, by paying interest on the paid up capital only, at a rate

not exceeding six per cent per annum;

(c) by setting aside not more than ten per cent of the surplus as an educational or community fund.

'(2) The remainder of the surplus shall, subject to the provisions of the by-laws, be divided among the members and patrons in proportion to the volume of business which they have done with the association.

'(3) Notwithstanding the provisions of this section, where the objects of the association are those mentioned in clause (d) of section 5 and the association is operated solely for pleasure, recreation, entertainment, gatherings of a public nature, civic improvement or other non-profitable purposes, the association shall not pay to its members interest on shares or patronage dividends, and no part of the surplus arising from the yearly operations of the association shall inure to any member or patron."

That deals specifically with community halls.

MR. VAUGHAN: That last section refers entirely to credit unions -- the apportionment of surplus?

THE WITNESS: No. That refers to cooperatives organized under the Co-operative Associations Act. Continuing:

"It should be noted that up until 1944 the statutory reserve fund was required to be built up until it was equal to at least 30 per cent of the paid up capital or membership fees as the case might be. The 1944 amendment changed this provision to at least 10 per cent of the total assets at the close of the fiscal year.

"In the case of interest on share capital there has always been a limitation and this has been 'not exceeding 6 per cent', with the exception of the years 1918 to 1928

when the Act allowed for interest on share capital 'not exceeding 8 per cent' of the paid up capital stock.

"No provision was made for such expense reserves as educational or community funds until 1939. In addition to the educational or community reserve the 1944 amendment makes provision for supplemental by-laws to retain a portion of the net surplus not to exceed 15 per cent of such surplus for any service or services to be supplied by the association or for fees, grants, assessments or other payments to be made to any company, association or society of a cooperative or mutual character supplying any service or services provided the full particulars thereof shall be set out in the supplemental by-laws.

"In the case of the requirement to pay out all balances of savings to patrons in proportion to the volume of business done with the association, this has been a definite requirement except for the years 1920 to 1928 in which years the Act included the word 'may' and indicated also that it was possible to include only shareholders and not necessarily patrons.

"This Act also provides for certain methods of using these funds if supplemental by-laws are passed by the association."

I have filed with the Registrar copies of the by-laws which deal with the revolving fund and such items as are usually set out for your information. Continuing:

"The Co-operative Marketing Associations Act states that its organization by-laws may provide for -

'the purchase and sale or resale by the association of products delivered to it by its members or other persons and the method of apportionment of the surplus arising from the business

of the association on a patronage basis among the members, after providing for all the necessary selling, overhead and other costs and expenses, including reserves for retiring shares, if any, and other proper reserves, including those required for acquiring real or personal property, for the erection of warehouses or other buildings or the acquisition of any mechanical or other facilities connected with the handling, processing, manufacturing and marketing of the products, and interest not exceeding 6 per cent per annum on shares and the amounts referred to in any organization by-law passed under the provisions of section 8.'

"Under section 8 certain deductions from sums payable to non-members are allowable.

"The Credit Union Act includes the following sections with respect to apportionment of surplus or savings:

'40. The board of directors shall set aside as a reserve fund all entrance fees, fines collected from members and, at the end of each fiscal year, before the declaration of a dividend, at least 20 per cent of the net earnings until the reserve fund is at least equal to 10 per cent of the assets from time to time of the credit union.

'41. The fund shall be invested by the board either by deposit in a chartered bank or in bonds of the Dominion of Canada or of any province of Canada provided that income hereafter received from such investments shall form part of the general revenue of the credit union.

'42. The fund shall be held as a reserve against bad loans or losses and shall not be used for any other purpose.

'43. (1) If the by-laws so provide, the board of

directors may, after making provision for a reserve fund and before declaring a dividend, set aside an amount not exceeding 5 per cent of the net earnings in a special fund which shall be used for such educational purposes as the directors may determine.

(2) Moneys from time to time in the fund shall be expended within three years after they are so set aside.

'44. After making provision for the reserve fund, as required by section 40, and for the educational fund, if any, the board may declare a dividend from the remainder of the net earnings, and in such case shall present its resolution to the annual meeting of the credit union for confirmation. Any dividend authorized at that meeting shall be paid on all shares outstanding at the end of the preceding fiscal year according to the amount credited on the books of the credit union as having been paid on such shares.'

"General:

"The Co-operative Associations Act restricts the use of the word 'cooperative' in the name of any company as follows:

'31. (1) No corporation doing business in the province shall use the word 'cooperative' or any abbreviation or derivative thereof as part of its name, or with respect to its goods, wares, merchandise or services or its method of conducting its business, or hold itself out to be co-operative, unless incorporated by or under the authority of an Act of the Parliament of Canada or an Act of this Legislature which expressly authorizes the use of the word 'cooperative'; and no person, firm or association shall do any of the said things.

(2) A person, firm, corporation or association contravening the provisions of this section shall be guilty

of an offence against this Act.'

"In the case of the Co-operative Marketing Associations Act similar provision is made except that it adds the word 'pool' as well as the word 'cooperative' in its limitations of use by other incorporated bodies.

"Similar limitations are placed on the use of the word 'credit' union' by the Credit Union Act.

"Annual returns are required to be filed with the Registrar in the case of all associations incorporated under The Co-operative Associations Act and certain monthly returns as well as annual returns are required in the case of credit unions. Cooperative marketing associations must comply with the section of the Act dealing with specific information to be submitted to the Registrar."

That is section 32 of the Marketing Associations Act.
Continuing:

"In addition all associations incorporated under these Acts are required to furnish any further information which the Registrar may wish from time to time. It should be stated here that while some of the cooperatives under special Act are not required to report to the Registrar according to their statutes, they all have complied with requests for information by the Registrar throughout the years.

"Encouragement to Cooperatives:

"In general recognition of the growing importance of the cooperative movement in Saskatchewan the Saskatchewan Legislature unanimously passed a bill setting up the Department of Co-operation and Co-operative Development in November, 1944.

"This Department has among its functions as set out in the bill, the administration of cooperative legislation as well

as the rendering of organization, inspection, research, publicity and any other services which may seem necessary from time to time to assist in administering cooperative development in this province. As mentioned earlier in this brief government encouragement to cooperative development in the territory, later to become Saskatchewan, started as early as 1896. It has been since facilitated by means of the removal of legislative obstacles, the provision of adequate legislation when needed, certain financial guarantees and grants as well as general supervision and assistance by a division of government.

"The Agricultural Credit Commission appointed by the Saskatchewan Government in 1913 made a special study of co-operatives in many countries of the world. The following is its first recommendation to the government of the day:"

I have a copy of the report but it is the last one in existence. You are welcome to use it at any time.

Continuing:

"That, inasmuch as in the experience of older communities cheaper agricultural credit is invariably associated intimately with other phases of agricultural cooperation, such additional legislation be enacted by the Legislature and information and guidance provided by the government as will further facilitate on the part of the farmers of the province the establishment upon a sound basis of a system of local and central rural cooperative societies for purchasing and selling farm products and supplies."

"In another section of this report the Commission stated that they believed the solution of our problems

must be sought along two lines:

1. The spread of cooperative effort especially at present in the direction of selling and purchasing;
2. The fostering of financial institutions of our own with sympathies for our problems and controlled by our own people.

"The report further outlines the chief advantages of cooperation as applied to agriculture as:"

I again refer to the report of the Agricultural Credit Commission. Continuing:

- "1. Economies due to handling goods on a large scale both in buying and selling.
- "2. The elimination of non-productive middlemen.
- "3. Protection against adulteration and inferior articles and implements.
- "4. A more intelligent study of market conditions and arrangements.
- "5. Cooperation develops responsibility in private and public life, makes for education in good citizenship and trains men to act with prudence.
- "6. Cooperation produces a more cohesive rural social life.

"In 1944 the report of the Saskatchewan Reconstruction Council makes the following recommendations with respect to cooperation:"

I have a copy of the report and there is a great deal of other information. I have just quoted recommendations from the report, but if copies are desired they can be provided. Continuing:

- "1. That an investigation be made by the Co-operation and Markets Branch to determine the need for livestock

feeding organizations and methods of financing them, particularly in the irrigated districts.

"2. That the Co-operative and Markets Branch explore the possibilities of cooperative farming.

"3. That the curricula of the secondary schools provide instruction in the history and principles of co-operatives.

"4. That personnel be provided for the Co-operation and Markets Branch as required to expand present inspection, advisory, and research services in cooperative undertakings.

"5. That the Income War Tax Act be amended to clarify the position of cooperatives, credit unions and federations of credit unions with respect to income tax liability.

"6. That the Dominion Government be asked to procure the passage of a Dominion Co-operative Act providing for the incorporation as Dominion companies of cooperatives operating on an inter-provincial basis.

"These and other reports such as the ones prepared by the Saskatchewan Live Stock Commission in 1918 and both the Dominion and Provincial Committees on Farm Implement Prices in the late thirties have usually recommended that farmers should be encouraged to organize on a self-help basis for purposes of marketing, purchasing and servicing according to their needs.

"In a material way the Saskatchewan Government has guaranteed, loaned or made outright grants to cooperatives of close to thirty million dollars up until the end of 1944. All the loans or guarantees with the exception of a little less than two million dollars have been repaid by the co-operatives themselves or are at present in the repayment stage according to the provisions set out under the guarantee

or loan. The total grants have been slightly in excess of \$100,000.

"At least two cooperatives at present operating in this province have used the provisions of the Dominion Agricultural Products Co-operative Marketing Act as amended in 1939 for purposes of marketing agricultural products under Dominion guarantee with respect to financing. The Dominion Government has not to date had any losses in connection with this encouragement which has been given to these marketing cooperatives in this province.

"The Department of Co-operation and its predecessors, the Co-operative Organization Branch and the Co-operation and Markets Branch of the Department of Agriculture, have assisted cooperative development in this province through the years. This has been done by means of special studies in connection with the proper organization of the various types of cooperatives, the publication of a news letter dealing with cooperation and markets news, assistance in the establishment of accounting or other services which are requested from time to time by the cooperatives, secretarial services to federations or groups of cooperatives or credit unions when requested, as well as other advisory, inspection and research services. This division or department of Government has for several years now required preliminary study and information before the incorporation of a co-operative. This gives assurance that there is a need for the cooperative that is proposed. The present Department has been set up to expand these various services as required and to assist cooperatives generally in achieving their objects for which they have been organized.

"With respect to the investigation which your Commission is now undertaking it should be noted that the Saskatchewan Income Tax Act specifically exempted co-operative associations, until the time when it ceased to be used.

"In November, 1944, the Rural Municipality Act was amended to exempt from all municipal taxes, community halls owned and operated by an association incorporated under the Co-operative Associations Act.

"The above information implies that the Government of Saskatchewan has felt that the cooperative movement was worthy of assistance in this province. The recent conditional guarantee of a joint financing arrangement for the Canadian Co-operative Implements along with Alberta and Manitoba as well as the close cooperation on cooperative problems with the Dominion Department of Agriculture and cooperatives in other parts of the world indicates a willingness to generally encourage the development of mutual self-help in any manner which seems desirable to meet the needs of the people.

"Spread and Diversity of Cooperatives:

"Saskatchewan has a wide variety of services being supplied to its people on a cooperative basis. Some markets produce for farmers; some purchase farm and farm home supplies; some provide a specific designated service either for individual members or for the community; some engage in production as distinct from distribution; and some are service organizations for other local cooperatives rather than for individuals.

"The greatest number of Saskatchewan cooperatives are incorporated under the Co-operative Associations Act...."

In this connection I present a map indicating the location of all cooperatives in the province organized under the Co-operative Associations Act. Continuing:

"The greatest number of Saskatchewan cooperatives are incorporated under the Co-operative Associations Act which defines the possible objects of associations organized under this Act as follows:

"An association may be incorporated for the purpose of establishing and operating any cooperative business or enterprise specified in its memorandum of association and, without limiting the generality of the foregoing, for the purpose of:

(a) purchasing, procuring, selling, exchanging, hiring, and dealing in goods, wares and merchandise;

(b) undertaking, and carrying on any enterprise relating to the production, purchase, sale or exchange of agricultural products and live stock, including:

(i) farming;

(ii) providing services for producing agricultural products and live stock, and

(iii) providing services for associations engaged in enterprises referred to in subclauses (i) and (ii).

(c) preparing, adapting, producing, processing and manufacturing goods, wares and merchandise for sale by it to its consumer members and patrons;

(d) establishing, maintaining and operating any one or more of the following: a library, a rest room, a club room or a public hall;

(e) erecting, purchasing, taking on lease or otherwise acquiring apartment blocks, houses, dwellings and

lodgings, and operating the same;

(f) rendering to its members and patrons services of any kind whatsoever incidental to its objects."

That is the map indicating the location of the associations organized under this Act for various purposes.

Continuing:

"Most of the associations organized under this Act are what are commonly known as bulk trading associations which means that they handle for their members such goods as coal and wood, twine lumber, or other farm or farm home supplies which cannot be classified as shelf goods. There are also a large number of store associations combining the handling of bulk and shelf goods. Most of the store associations, although not all of them, have developed first some bulk commodity service, then have gradually added to these services, and finally established a store for the distribution of shelf goods to their members. For example, in the past year, 1944, it is reliably estimated that some fifty or sixty new cooperative stores have been opened in the province. More than 80 per cent of these have resulted from cooperative bulk trading associations expanding their services in their various communities. In most recent cases due to wartime restrictions stores have been taken over from established businesses considering withdrawal due to the proprietor reaching retirement age, the proprietor wishing to establish himself on a permanent salary basis in the employ of the cooperative or elsewhere, or in some cases such as Kandahar where the proprietor intended to leave the community without retail store service.

"Community hall and recreation associations are organized on a cooperative basis to a substantial degree in Saskatchewan.

This type of organization includes not only halls, but some cooperative theatres, rinks and numerous other buildings for public or community service.

"Cooperative associations for the purpose of shipping live stock, grazing, farm machinery use, sheep production, funeral service, housing and a great many other incidental service requirements of the average community in Saskatchewan have been formed. The many requests at the present time for information on such services as cold storage lockers, canneries, and rural electric associations indicate that the development of the service cooperative field in Saskatchewan may be just in its infancy.

"In addition to the incorporations there are a number of inter-provincial cooperatives, and cooperatives organized under special legislation, registered under the Co-operative Associations Act.

"Firms incorporated under the Co-operative Marketing Associations Act for the most part have been set up for the marketing of specific agricultural commodities and include cooperatives whose members are largely dairymen, grain growers, poultrymen, livestock men, seedsmen, honey producers or horsemen."

There are twenty-five such organizations in the province and I have a map showing the location of those also. Continuing:

"Over 160 credit unions are now incorporated in this province, with about 125 in rural communities. About 70 of these credit unions in rural communities are in districts which have no other banking facilities. There are credit unions of the community type, the occupational type, and various associational types in this province."

I have a map showing the location of the credit unions in the province, which can be used by the Commission. Continuing:

"The Co-operative Union of Saskatchewan, the Credit Union Federation of Saskatchewan and the Saskatchewan Women's Co-operative Guild are incorporated bodies definitely interested in educational work for cooperatives in this province. In addition various other groups such as the Extension Department of the University and educational arms of various farm organizations do useful work in spreading reliable cooperative information throughout the province.

"In conclusion to this section it might be stated that there would seem very few fields into which cooperatives could not enter in the province of Saskatchewan if there was sufficient need to justify such entry.

"Statistical Information:

"In order that there may be no confusion, the statistics given in this section of the brief will deal only with cooperatives operating under the Co-operative Associations Act and unless otherwise specified only with those associations merchandising bulk or shelf goods for their members. The information given in most cases has been taken from questionnaires prepared and personally enumerated by members of the Research Services of the Department of Co-operation or from the annual returns submitted to the Registrar of Co-operative Associations."

When I say "purchasing associations" I mean those organized for merchandising bulk or shelf goods for their members. Continuing:

"Racial Origin of Members - A survey of the membership of 170 cooperative purchasing associations in 1938 indicated that racial origins of the membership of cooperatives in these communities followed very closely the proportionate racial grouping in the communities themselves. For example those of British origin in the communities studied formed about 58 per cent of the total population and they formed about 65 per cent of the cooperative membership; French about 3 per cent of the total population and about 4 per cent of the cooperative membership; Germans about 13 per cent of the total population and about 12 per cent of the cooperative membership; Scandinavians about 11 per cent of the total population and about 11 per cent of the cooperative membership; Dutch, Belgians and Swiss about 4 per cent of the total population and about 2 per cent of the cooperative membership; all others about 11 per cent of the total population and about 6 per cent of the cooperative membership. Cooperative membership in Saskatchewan may be said therefore to be on a reasonably proportionate basis in comparison with community settlement. This statement would be applicable in most cases with respect to the local unit as well as to the total group.

"Attendance at Meetings - A survey of 286 associations giving definite information on their annual meeting attendances in 1943 indicates that roughly 30 per cent of the total membership was in attendance. This group of associations had close to 40,000 members and almost 13,000 persons were in attendance at their annual meetings to help decide on the policy for their association. The total membership figure given has not had what is commonly called 'the deadwood' eliminated, i. e. the deceased and non-resident members shown on the register. Reliable

estimates from questionnaire and survey reports would indicate that this might run as high as 20-25 per cent on the average for some of the associations under consideration here.

"Eighty-nine associations in this group reported 167 special meetings of the membership during the year with an average attendance of more than 25 per cent of the membership at these meetings.

"Most of the store associations reported monthly meetings for their Boards of Directors with an average attendance over the year of seven out of nine directors. Similar attendance percentages were indicated for directors meetings in bulk trading associations but the number of meetings in the year varied for these associations.

"Interest on Capital Shares - For 485 associations reporting, 478 were on a share capital basis, but 111 of these had a by-law prohibiting the payment of interest on share capital. Only 31 of the 367 who might pay interest on share capital did so in 1943 and the total interest paid amounted to slightly more than \$4,000 on paid up capital of \$164,000.

"Twelve associations which paid interest on capital were trading associations with store services and 19 were engaged in bulk trading only.

"Net Surplus - Close to 500 cooperative purchasing associations in Saskatchewan reported an average net surplus of \$1,900 per association in 1943 as compared with \$1,800 in 1942. It should be pointed out that the average for about 100 associations supplying both bulk and shelf goods was in the neighbourhood of \$4,000 while that for 400 bulk trading associations averaged slightly more than \$1,000

per association in 1943.

"On a membership basis this net surplus averaged \$14 per member in 1943 and \$16 per member in 1942.

"Financing -- A tabulation for 164 associations indicates that in the year 1938, 61 per cent of the shares allotted by cooperative associations had been paid for in full and 39 per cent were partly paid. Of these paid up amounts on shares 44 per cent had been paid in cash and 56 per cent by the application of patronage dividends.

"A tabulation for 164 cooperative purchasing associations indicates that monies borrowed from other than members and patrons amounted to 20 per cent of the total finances of the associations at the end of 1938 and 14 per cent of the total in 1942. Of these amounts about 5 per cent were accounts payable to either the Saskatchewan Co-operative Wholesale or the Consumers Co-operative Refineries while most of the balance was short term liabilities for merchandise accounts.

"Less than 2 per cent of the 164 associations mentioned in this section had shares of a par value exceeding \$25 and most of them had shares with a par value of \$5 per share.

"Dissolutions - In order that the Royal Commission on Co-operatives or others may not consider that building a cooperative movement such as that in Saskatchewan is an easy matter, it should be pointed out that of 1,415 associations incorporated under The Co-operative Associations Act since 1914 to the end of 1944, 605 had ceased to exist at the latter date. Sixteen cooperatives marketing associations out of the total of 45 incorporated under the Co-operative Marketing Associations Act had been dissolved before the end of 1944. None of the 163 credit

unions incorporated in this province to the end of 1944 had been dissolved.

"It should be pointed out that for the first 25 years of operation of the Co-operative Associations Act 123 of the 531 dissolved associations were never active to any extent in a commercial sense, and 76 of these dissolved associations returned \$1 or more per dollar of investment to their members.

"The experience over the years has now placed Saskatchewan purchasing cooperatives in the position however that since about 1932 there have not been an excessive number of withdrawals and since 1938 withdrawals have numbered about two or less associations per 100 on the register per year.

"As cooperators continue to develop new methods of self-help in this province they will be certain to benefit from these experiences of the past while moving forward to give greater service to themselves as members who use their own cooperative in the future.

"Conclusion:

"A conference of representatives of 44 nations discussing the problems of food and agriculture recommended:

'That all countries study the possibility of the further establishment of producer and consumer cooperative societies in order to render necessary production, marketing, finance and other services',

and that

'Each nation examine its laws, regulations, and institutions to determine if legal or institutional obstacles to cooperative development exist, in order to make desirable adjustments.'

"The Department of Co-operation and Co-operative Development in Saskatchewan takes great pleasure therefore in endorsing this recommendation to your Commission and suggests that the present enquiry should study the facts presented to it in the light of this international recommendation."

THE CHAIRMAN: We are very grateful to you, Mr. Turner, for your clear-cut brief. I understand this was prepared under some strain -- I am told you were married within a short time of the execution of the brief.

THE WITNESS: That is putting me on the spot.

BY MR. PARKER:

Q. You are to be twice congratulated on your brief. Has the province of Saskatchewan ever collected provincial income tax, do you know? A. From whom?

Q. From anybody. A. Yes, I understand so.

Q. Has it ever collected any income tax from co-operative associations? A. They were specifically exempt under the Provincial Income Tax Act. There may be some special case I do not know of; I cannot answer the question completely.

Q. On page twelve of your brief you give some figures dealing with the number of cooperatives recently established. A. Yes, three-quarters of the page down.

Q. You say: "For example, in the past year, 1944, it is reliably estimated that some fifty or sixty new co-operative stores have been opened in the province." Who would be the estimator? A. In the first place, we made an estimate from our files and I checked that with Mrs. Neal, of the Wartime Prices and Trade Board, Regina office, and she

indicated that their files showed fifty-nine transfers in the year 1944. I said fifty or sixty, having estimated that range on the basis of our records.

Q. From fifty to sixty new cooperative stores have been opened in the province? A. Yes.

Q. Are these in localities where there were no stores before or are they being transferred from private persons to cooperatives? A. There would be no new buildings as such under the war-time restrictions, but, as the next sentence indicates, more than 80 per cent of the number given represent expansions of services in bulk co-operative associations.

Q. I just wanted to know whether they were merely replacing the other type of stores or whether they were in addition to what had previously existed. A. Since the Wartime Prices and Trade Board will not allow additional stores, they would be replacing others.

Q. Replacements or substitutions? A. Yes.

Q. I have not had a chance to read very carefully all the Acts which are so familiar to you, but can you point to anything anywhere in them that constitutes what I might call a statutory definition of a cooperative? Where would I find that? The word cooperative is used very many times. Is there a statutory definition of it?

A. There is no statutory definition. The statute requires that they fulfil the provisions of these Acts. If they fulfil the provisions of these Acts or of any of these Acts they are considered cooperatives as far as the Registrar of Co-operatives in this province is concerned.

Q. At any rate, the legislature has not undertaken to give a formal definition as far as you know? A. Not as far as I know.

Q. In the administration of the Act has the Department, as we lawyers sometimes say, established as a rule of practice any kind of complete definition of what they consider are the requirements for an institution to be a true cooperative? A. Nothing more than I have indicated in the early section of the brief, on page two in the last paragraph: "At the outset it should be stated that in so far as possible those responsible for cooperative legislation and administration have avoided the incorporation or registration of cooperatives in which the responsibility for the operation and control of the enterprise did not relate back to the individual member or patron performing his function in society either as a producer or consumer."

Q. There is a great variety of definitions, apparently. That is the nearest approach to a definition which the Department has laid down to guide it in administering the Acts? A. I would say so, yes.

Q. Can you tell me in a few words the extent to which the Department insists on the auditing of the books of cooperatives to satisfy itself that the methods of operation comply with the Department's idea of a true cooperative as laid down there? A. First of all, the department requires in the case of each cooperative a preliminary application to form a cooperative. They must submit certain information prior to incorporation. They have to submit information dealing with location, size of population, racial origin, attitudes towards cooperative community enterprise, and so on. They must submit that first, then the Registrar considers it, and he usually consults with other, larger, cooperative agencies in the province to see if they fill the bill of a cooperative. Then they file a memorandum of association.

Q. I understand the machinery of getting the charter, but after you have given them the charter and they have started on their operations, for six months or a year or two, does the government have travelling auditors go around and audit the books of associations in order to satisfy the Department that they are operating on what I will call, if I understand the meaning of the term, a true cooperative basis? A. We do in the case of credit unions have an inspection staff which visits every credit union once a year. In the case of other cooperative associations we have an inspection staff but they do not make a regular inspection. They inspect casually from time to time.

Q. How many are there on the staff? I mean travelling auditors. A. There are two inspectors of cooperative associations and three inspectors of credit unions.

Q. Are they full time? A. Yes.

Q. Continually on the road? A. Most of the time they are on the road, although they have their office.

Q. Do they audit with you in view, in order to report that this cooperative in such and such a town is doing things in accordance with true cooperative principles, and so on and so forth? A. They might not use the words "true cooperative" but they would give us information on which we would make a check-up.

Q. Does the Department insist on so-called co-operatives -- I am not using that word in any unkind way -- keeping their accounts so as to distinguish between the amount of business done with members and what is done with non-members? I realize that in the forms of information you call for they fill in what is requested. But is it insisted upon? Do your inspectors as they go around check up on that particular feature and insist that it be done?

A. In this province, to this extent, that all savings or surpluses accruing must be paid on the basis of patronage and they check on patrons buying over fifty dollars to see if the amounts are correct.

Q. I understand that, but it is not quite an answer. To what extent does the Department insist that careful accounts be kept to distinguish between the amount of business done by members and the amount done by non-members? A. We are interested to see that patrons receive their money and therefore do not keep any special check on what you have in mind with respect to members and non-members. It depends on what your definition of member or non-member may be.

Q. I thought that would be the Department's job. That is a point for the Commission to decide. The answer, in what you have said, is no? A. If I understand it.

Q. If you understand the question the answer is yes or no. A. No.

MR. THORVALDSON: I wonder if the witness will inform himself on one matter. I would like to know whether any taxes were paid by cooperatives while the Saskatchewan Income Tax Act was operating in the province, no matter whether any taxes are paid now.

THE WITNESS: I will look into that.

The Commission adjourned at 12 o'clock.

.....

The Commission resumed at 2 p. m.

Examination Mr. Turner continued:

BY MR. PARKER:

Q. There is one thing I want to make clear with reference to so-called travelling auditors. In their

visitations to the various cooperatives, do they carry out merely a checking of the books or is it an inspection that is made with a view to obtaining information on which to base a report to your Department as to whether these organizations are operating as true cooperatives, as the Department understands that term? Is that the object, or is it merely to check up on their accounts? A. It is to make certain that they are operating as cooperatives and also to make a check-up. It is for both purposes.

Q. Both purposes? A. Yes.

Q. In your experience with the Department have you ever had any reports -- I do not want you to mention any names of cooperatives in the province -- have you had any reports from inspectors who have found any that were not operating according to true cooperative principles?

A. Again you use the word "true".

Q. I will leave out the word true; I will say cooperative principles. A. There are some that are operating not entirely in accordance with the Act. We have found some at times who have not been so operating, but we have taken steps and have rectified the situation as soon as notified.

Q. These reports are made to your Department?

A. Yes.

Q. You give the necessary instructions to them to get their houses in order? A. We inform the president, the Board of Directors and the manager and usually the whole directorate and ask them to see that it is put in order as quickly as possible if anything is wrong.

BY MR. GROSCH:

Q. In your brief you state that the purpose is to find a market for agricultural products. Most agricultural

products have a foreign, not a domestic market.

A. What page is that?

Q. The first page, in the seventh line. Isn't that right? A. Are you referring to the sentence: "For example, the first and most basic problem confronting Saskatchewan agriculture has been the need of getting their surplus of agricultural products to a market....."

Q. Yes. The bulk of agricultural products find their final destination in foreign markets, not in the domestic market. Am I not right in that? A. I would say probably the largest percentage of it, yes; that is right.

Q. Then the small cooperatives could not do anything to assist in that, could they? A. In this province?

Q. In this province. A. Oh yes. I would say their organization, assembling and collecting in their local communities, has quite a bearing on the interests of the various crop growers who are located at sixteen or seventeen points in the province.

Q. I am primarily interested in milk production. In what way could the small cooperatives assist them? A. As local assembling agencies and collecting agencies for milk, handling milk and whatever is necessary at the local points in connection with the marketing of the product. But after all, even though the final market may or may not be, in the case of milk and dairy products, as much in the foreign field as in the domestic, they are still of assistance. It is more a domestic problem in the case of dairy products.

Q. You export butter? A. We export a little butter.

Q. From your local Saskatchewan field? A. Yes.

Q. And as a matter of fact you have only one small dairy cooperative association here, and that is at Midale?

A. A dairy cooperative association?

Q. You have only one, at Midale? A. We have a dairy pool.

Q. One small one? A. They have their local units.

Q. You have one at Saskatoon and one at Regina with their branches and one small one at Midale. That is correct?

A. I think so. I will check on that.

Q. The Dairy Commissioner's report will have it.

A. There must be more.

Q. Will you name them if there are any more than the one at Midale. A. I will have to check up on that.

Q. Have you the Dairy Commissioner's report?

A. I have the Co-operative Associations' report, which indicates three.

Q. There is a small one at Midale, the dairy pool at Saskatoon, and the creameries at Regina. Is that right?

A. I think so.

Q. And they, you say, are now providing to take care of surplus dairy products in this province. That is all you have? A. Yes.

Q. You say that the cooperative movement began in 1896 and the first three cooperatives were dairy cooperatives?

A. That is right.

Q. Therefore, if we trace the history of the dairy cooperatives through these years, we shall have the history of the oldest cooperative associations and essentially of the cooperative movement. A. That is right.

Q. You state further, on page two, that the real test of a cooperative -- and you do not define what that is--

consists in the operation and control of the enterprise relating back to the individual member or patron performing his function in society either as a producer or consumer?

A. That is correct.

Q. And if there is neither producer nor consumer representing any one of these so-called cooperatives it cannot be a true cooperative. That is one of the elementary principles. A. Yes, if they are neither producers or consumers.

Q. It must be one or both? A. Yes.

Q. You say that "the final responsibility for control rests with the individual producers or consumers who use the business jointly with their neighbours and friends." If any of these so-called cooperatives had neither, it would not be strictly cooperative. A. No. That is the way we have tried to make it.

Q. That is the way you interpret it? A. Yes.

Q. I just want to find that out. I say to you that the Saskatchewan Creameries Association Limited of Regina has no shareholders, no patrons and no elected Board of Directors but is controlled by a Board of Management appointed by order in council of the Government, and I ask you this question: Should their name not be changed and the word "cooperative" struck out? A. In that respect, I think that you and Counsel here may not be fully aware of the fact that the Saskatchewan Co-operative Creameries for a period of years was under receivership and is just now returning to the cooperative field.

Q. Returning, but it has not yet returned. It is still on the way? A. As far as my information goes, it has recently registered as a cooperative association.

Q. In 1943 it registered as a cooperative association?

A. Yes.

Q. But still has no patrons, no shareholders and no elected Board of Directors, even today. A. I am not sure of that.

Q. I can tell you that is correct; and yet it claims exemption from taxation? A. I am not --

Q. Not conversant with that? A. No.

Q. And it is called the Saskatchewan Co-operative Creameries Association Limited. That is the name of it?

A. Yes.

Q. Through your inspectors did they report this fact to you? A. You mean the Co-operative Creameries?

Q. Yes. A. Yes. Whatever year it was that it came under receivership.

Q. But the receivership has been removed and it has gone under the management of a board of management appointed by order in council of the Lieutenant Governor?

A. Until such time as the patrons are ready and able to take care of it.

Q. Until such time as the patrons are able? That is no part of the Act. A. Records are now being kept for the patrons.

Q. But there are no patrons. A. Everybody that delivers cream is a patron.

Q. He may be a shipper of cream or milk but he is not a patron? A. He is a patron, in my opinion.

Q. Let us go a step further. Have they any membership? A. They will have as soon as --

Q. I am talking about the present. They have not now. Am I right there? A. I think I had better reserve

my answer on that until I have studied the situation.

Q. But you know there are no members. You know whether there are members or not. A. I still want to reserve my answer. I would say that most of the patrons know that they are going to become members in due course.

Q. Most of the patrons may hope that they will become members in due course, but they are not now.

A. That is probably right for a large number of branches.

Q. That is according to my information, and yet they use the name cooperative. Do they not? A. Yes.

Q. But you have not struck them from the roll.

A. They are under special legislation and receivership.

Q. Have your inspectors notified the management about this condition, as you told Mr. Parker is the custom?

A. I think --

Q. Answer me, please. Do you know? Don't guess. You are Deputy Minister; you should know. A. They have certainly been in touch with the management.

Q. What kind of "touch"? A. They had definite contact with the management, and the management is making plans now to turn the equities of the members back to the members.

Q. But they have no members. A. The equities of the patrons.

Q. They have no patrons. A. Oh yes, they have.

Q. They have shippers. Are you going to make members and patrons out of shippers? A. Yes.

Q. In the future? A. Yes.

Q. So that today, notwithstanding the fact that they have neither shareholders nor members nor patrons, they call themselves a cooperative and trade under that name before

the public, do they not? A. Yes.

Q. That is right, is it not? A. Yes.

Q. And they are claiming exemption from taxation?

A. I have no knowledge of that.

Q. There is a point on which I would like to get some information. With respect to the loans which you say the credit union makes, at moderate rates of interest, that is a rather flexible term. What are the rates? A. They are required to be not more than 1 per cent per month on the outstanding balance.

Q. Do you call that moderate? A. For small loans it is.

Q. Are you sure you are outside the Usury Act?

MR. PARKER: That is a question of law.

BY MR. GROSCH:

Q. I withdraw the question. But you say the rate is 1 per cent per month? A. That is the maximum they can charge. They are not charging up to two.

Q. No, I hope not. Now, I find this on page three of the brief. It is stated that you may order the retirement of a member. You say that the directors may grant admission to membership and may order the retirement of a member, and you go on to say: "In the former case it is possible to become a member through the accumulation of credits resulting from patronage dividends. In the latter case there are certain definite requirements as to the repayment of the members' equity as well as a right of appeal by the member to a general meeting of the association." What procedure is usually adopted to bring about that retirement?

A. The section of the Act is Section 10, subsection 1, paragraph (q), which provides: "that the directors may by

a two-thirds vote, at a meeting duly called, order the retirement of a member from the association." Subsection 2 reads: "An order made by the directors under the authority of clause (q) of subsection 1 shall be subject to the following provisions: 1. Where the Association has share capital, the Association shall purchase at their par value all shares held by the member and pay to him accrued interest on shares and amounts held to his credit; 2. Where the Association has no share capital, the association shall refund to the member his membership fee and pay to him all other amounts held to his credit; 3. The secretary of the Association shall, within five days from the date on which the order is made, notify the member in writing of the order; 4. An appeal from the order may be taken by the member to the next general meeting of the Association, provided that written notice of intention to appeal shall be given by him to the secretary within thirty days from the date of receipt of the notice mentioned in paragraph 3."

Q. Could not this provision be adduced, so that as soon as protesting minority groups arose, before they could become the majority, out they would go? A. In a cooperative it is one member one vote.

Q. That is one big thing I omitted to ask about in connection with the Co-operative Creameries.

A. It is under Government supervision.

Q. Is that in accordance with your idea of the principles of cooperation? A. No vote?

THE CHAIRMAN: When you say that it is under Government supervision, do you mean the Dominion Government?

MR. GROSCH: No, Mr. Chairman. It is a provincial Act. The province, by order in council, appoints a board of management; the Dominion Government has nothing to do

with it.

THE CHAIRMAN: It is under Government control. Would not that answer the question as to non-taxation?

MR. GROSCH: No, because they purchased it by agreement with the Government and are paying it back. They are owners under agreement. I see your point, Mr. Chairman. That will come out in my brief.

BY MR. GROSCH:

Q. Mr. Turner, could not this provision be made a means of getting rid of minority protesting groups, to see that they never had any strength? You could always keep control. A. Who could?

Q. Whoever happened to be the majority at the time. A. They are the ones who are supposed to keep control in a cooperative.

Q. But it is the directorate that acts first. It is only the matter of confirmation that goes to the members. A. Yes; but there is a right of appeal to the members.

Q. But when the appeal comes they are out during pleasure -- retired. It is a pretty cold outfit when you are on the outside looking in.

BY MR. ARNASON:

Q. Do you know of any instance in which this power has been used? A. No.

BY MR. GROSCH:

Q. Am I to assume that the power has been there for use but has been lying dormant? A. The only place where this would be used would be as regards members who had left the community, dead wood as it were, people who are not at present using the business in a true cooperative manner.

Q. But why expel the dead? There is no trouble there.

A. It is necessary to get them off the shareholders' list.

Q. But you have a funeral home for them? A. It has not been used in the way you are suggesting.

Q. Let us turn to page thirteen of the brief. You say: "Cooperative associations for the purpose of shipping livestock, grazing, farm machinery use, sheep production, funeral service, housing and a great many other incidental service requirements of the average community in Saskatchewan have been formed." There is a funeral home established in Regina as a cooperative? A. Yes.

Q. In the case of the funeral home, who are the producers? A. Those who die.

Q. And who are the consumers? A. Those who are alive.

Q. And who have the vote? A. The members of the association.

Q. The living? A. The living, the membership in the funeral service for the benefit of their families. It is the families that are members in the funeral home association.

Q. I suppose that gets away from the principles of processing or manufacturing. You are free from that. Have you ever struck any company off the list for using the name cooperative when it did not comply with the Act as you thought it should? A. That is after it was once incorporated as a cooperative?

Q. Yes, after it was once incorporated. A. I don't know of any myself. I could check that up and bring the information tomorrow.

Q. On page six you say: "No provision was made for such expense reserves as educational or community funds until 1939. In addition to the educational or community reserve the

1944 amendment makes provision for supplemental by-laws to retain a portion of the net surplus not to exceed 15 per cent of such surplus for any service or services to be supplied by the Association or for fees, grants, assessments or other payments to be made to any company, association or society of a cooperative or mutual character supplying any service or services provided the full particulars thereof shall be set out in the supplemental by-laws."

Has this any reference to advertising? A. No. That would refer to benefit schemes of various types to help the membership of the community. We have one or two cooperatives in this province who have a benefit scheme whereby they pay a death benefit based on the average of the last three years' purchases.

Q. There is no inspection by the Dominion Government Inspectors? A. In what way?

Q. The Dominion Inspector never comes in to look at that? A. In connection with income tax?

Q. Yes. A. Yes.

Q. Does he exercise his discretion? A. A number of cooperatives are required to file certain information.

Q. That may be, because even if you are exempt you file information. But does the Dominion follow that up by saying, as in the case of limited liability companies, "You have an item of \$10,000 for advertising and it should be \$5,000. Cut it down to \$5,000." Do you know of anything like that being done? A. No.

Q. Again, on page six, you say: "In the case of the requirement to pay out all balances of savings to patrons in proportion to the volume of business done with the association, this has been a definite requirement except for the years 1920 to 1928 in which case the Act included the word

'may' and indicated also that it was possible to include only shareholders and not necessarily patrons." That is to say, they "shall" do so and so, with the exception of the years mentioned, and now you are back to the imperative shall. A. With the exception of those years, yes.

Q. How often must they pay out these surpluses or distribute them? A. On an earlier page it is stated that, in accordance with section 25 of the Co-operative Associations Act, the directors after paying expenses and making proper allowance for depreciation "shall apportion the surplus arising from the yearly business of the Association as follows."

Q. I was not certain about the interpretation of that but it means, according to your administrative practice, every year? A. Yes, subject to the provisions of the by-laws.

Q. Have you a copy of the by-laws? A. Yes.

Q. Do you approve or disapprove the form of by-laws before they become effective? A. Yes, we do.

Q. Are there any who in their by-laws have a provision that they need not make this annual distribution? A. As far as my knowledge goes they all have that provision, that they make annual distribution -- that is, allocation to members. In other words, they have set up an equity for the members.

Q. But do they make the actual distribution?

A. In cash.

Q. In some form or other. A. They make it a dividend payable; it is an allocation.

Q. A dividend payable immediately or at some future date? A. That would depend on the by-laws.

Q. Do you know of any by-laws under which it is made

at a future date? A. It may be retained in certain cases.

Q. How long? A. That is at the discretion of the directors. That is the way that reads. I will check that by-law. There are two sections dealing with the distribution of surplus. There is a section dealing with the revolving reserve and a section dealing with the distribution of surplus.

Q. With regard to the revolving share, my information is not very definite and I hope that if I make a mistake you will correct me. I understand that the Dairy Pool in Saskatchewan has a revolving fund, or revolving door.

A. It is called by various names. We call it a revolving reserve.

Q. This door revolves every year. The first year nothing comes out of it and in the seventh year the first year's dividend drops out? A. It is paid.

Q. That is the first time there is any distribution of the fund? A. The Dairy Pool itself will be here and will answer in that regard.

Q. That is as I understand it. A. The majority do not have any definite seven-year or five-year period. In the majority of cases it is when it is deemed sufficient for the operations of the association.

Q. The primary principle underlying these co-operatives is that at the end of each year there shall be a payment? A. If there is an allocation.

Q. But there are wide discretionary powers vested in the directors which may change all that? A. No. They must still allocate.

Q. But it is not paid? A. It becomes a dividend payable.

Q. But they do not say when? A. It is payable and

there is interest payable on it.

Q. Once it is declared the shareholders can get it? Are you sure of that? A. Yes. It is a dividend payable. The dividend shall be payable "at such time and in such manner" as the directors may determine. That is provided in the by-laws.

Q. "In such manner." And if the directors decide that it shall not be for seven years, that is the time and the manner in which it shall be paid? A. Yes.

Q. It may be held for seven years before it is payable? A. That is possible, but it is still a part of the equity of the member.

Q. It is frozen for seven years and then they thaw it out? A. It may be seven years.

Q. Or it may be forever?

THE CHAIRMAN: They would lose if they held it too long.

BY MR. GROSCH:

Q. That is why I was asking about the ejection of minority groups who might be kicked out because they made too much trouble. On page seven you make a statement about the restriction of the use of the word cooperative.

A. Yes. Section 31 of the Act states: "No corporation doing business in the province shall use the word 'cooperative' or any abbreviation or derivative thereof as part of its name, or with respect to its goods, wares, merchandise or services or its method of conducting its business, or hold itself out to be cooperative, unless incorporated by or under the authority of an Act of the Parliament of Canada or an Act of this Legislature which expressly authorizes the use of the word 'cooperative'; and no person, firm or association shall do any of the said things."

Q. There have been no prosecutions under this Act?

A. Not as far as I am aware.

Q. Although subsection (2) of the same section declares: "A person, firm, corporation or association contravening the provisions of this section, shall be guilty of an offence against this Act." A. Yes.

Q. And your inspectors have reported back that there are some who have done so and you have adopted the method of sending them a notice giving them warning, but you have not prosecuted them. A. In all cases they have conformed with the requirements of the Act.

Q. But you do not prosecute them? A. No.

Q. On page nine you state that the Agricultural Credit Commission reported outlining the chief advantages of cooperation as applied to agriculture, among which is mentioned "the elimination of non-productive middlemen." Does that mean competitors? A. Well, I have to confess ignorance of the 1913 Commission, but that is the statement.

Q. They have enumerated six advantages and in the six they do not include exemption from taxation. Do you not think that is another advantage that should have been included there? A. That is for the Commission to decide rather than for me.

Q. But it is a decided advantage?

THE CHAIRMAN: There was no income tax in 1913?

MR. GROSCH: There was no income tax until later on, and later on there was income tax but not on all co-operatives. I understand that the wheat pool did pay income tax to the provincial government, but not the dairies. There was a distinction between them. That is my information. If I am incorrect I am prepared to stand corrected. I got this

information from outside, but I wish to qualify the statements I make from my limited knowledge. I am therefore prepared to be corrected. I have done the best I could from outside to get the information.

BY MR. GROSCH:

Q. On page ten, Mr. Turner, you make this statement:

"In a material way the Saskatchewan Government has guaranteed, loaned or made outright grants to cooperatives of close to \$30,000,000 up until the end of 1944. All the loans or guarantees with the exception of a little less than \$2,000,000 have been repaid by the cooperatives themselves or are at present in the repayment stage according to the provisions set out under the guarantee or loan." Can you break down those figures and say to whom? A. I will be prepared to do that for the Commission.

Q. I should be glad to have you do that. In that list do you include the amount, in the case of Saskatchewan Co-operative Creameries, of \$592,203.48 guaranteed by the Bank of Montreal in 1931. A. I will report on the individual transactions to the Commission.

Q. In the case of one company alone there was an amount of \$1,732,552.22; that is close to \$2,000,000?

A. That comes under a different department of government, but I think they will be prepared to give that information.

Q. I was thinking that came outside the cooperatives you had reference to. A. No.

Q. The losses must have been very small. If you take a sum of less than \$2,000,000 and deduct this large amount that I have mentioned of \$1,700,000 odd, they must have been small. A. They were very small, yes.

Q. On page eleven you say: "In November, 1944, the Rural Municipality Act was amended to exempt from all municipal taxes community halls owned and operated by an

association incorporated under the Co-operative Associations Act." That is another discrimination against privately owned companies. Am I right?

MR. PARKER: I do not know whether that is a proper question to put to the witness.

THE CHAIRMAN: Our inquiry does not extend to municipal taxation.

MR. GROSCH: The point I am making is this, that the effect of exemption has created a discrimination against non-exempt companies which is so serious that it is driving them into the position --

THE CHAIRMAN: We are very familiar with that argument, Mr. Grosch; we have had it from Vancouver to Regina.

MR. GROSCH: And no doubt you will hear it repeated until you get east.

THE CHAIRMAN: I am sure.

MR. GROSCH: The discrimination is not only on the part of the Dominion in granting the present exemption; it goes all the way through the province and now to the municipal governments, and it piles another load on to the taxes others have to pay because there is exemption for favoured institutions.

MR. ARNASON: You are aware that cooperative community halls are forbidden to pay patronage dividends; they are prevented from paying any surplus whatever to any shareholder.

MR. GROSCH: Yes; and while they get away from the payment of patronage dividends they create the competition which puts the privately owned municipal hall out of business and drives the private operator into bankruptcy. I know where that has happened. That is correct, Mr. Turner, that

under the Municipal Act there is a further exemption?

THE WITNESS: Yes; that is stated on page eleven.
That is correct.

BY MR. GROSCH:

Q. On page twelve you say that a cooperative may be established for the purpose of "erecting, purchasing, taking on lease or otherwise acquiring apartment blocks, houses, dwellings and lodgings and operating the same." A. Yes.

Q. Who is the producer there? A. It is the consumer.

Q. And who is the consumer? A. Those who live in apartment blocks, houses, dwellings or lodgings.

Q. Who is the producer -- the man that owns it or the group that owns it? A. The group who own it are the ones that are using the services.

Q. And to whom are the services distributed?
A. To the group that use those services.

Q. To the consumer? A. To the consumer who uses the services.

Q. That is another form of cooperative -- the acquiring of apartment blocks -- which of course is not agricultural production? A. Well, they are not producing agricultural products.

Q. I do not think so, and yet you can form a cooperative for that purpose as well as for the purpose of "rendering to its members and patrons services of any kind whatsoever incidental to its objects." That is a sort of carry-all clause -- no limitation there? A. No. There are one or two limitations in the next section.

Q. Perhaps I was careless and overlooked them.
A. Section 6 reads: "No association shall have power:

(a) to construct or operate a railroad or telegraph line; (b) to carry on the business of insurance, except as agent or broker; (c) to carry on the business of a trust company as defined by The Trust Companies Act; (d) to carry on the business of a loan company as defined by The Loan Companies Act; (e) to carry on business as a wholesaler; (f) to carry on business as a manufacturer except as provided by clause (c) of section 5."

Q. Those are largely matters within the jurisdiction of the Dominion Government, such as railroads. It was well that you mentioned that they could not carry on railroads. Were there ambitions in that direction? A. I do not care to answer that question. That is a matter of opinion.

Q. Those are the objects which under the provincial Acts a cooperative may carry out? A. Under the provincial Co-operative Associations Act.

Q. And you allow them to operate if they stay within those provisions? A. Yes; provided it is the people who are using the business.

Q. Yes. Therefore when the word cooperative is used in as wide a sense as that, that name cooperative would apply to an organization having powers more limited than those set out in section 6, so that that organization would enjoy exemption from taxation under the Dominion Act. A. That is a matter for the Commission to decide.

Q. So that the word cooperative may be an absolute misnomer so far as Dominion Acts are concerned, corresponding with Provincial Acts with wide powers such as these.

THE CHAIRMAN: That is a matter of argument and not a question that can be put to this witness.

MR. GROSCH: I simply wish to point out that the mere

fact that the word "cooperative" appears in the name of a company should not be considered as bringing that company within Dominion statutes so as to entitle it to exemption from taxation.

BY MR. GROSCH:

Q. On page sixteen of the brief, Mr. Turner, you say that of 1,415 associations incorporated under the Co-operative Associations Act since 1914, to the end of 1944, 605 had ceased to exist at the latter date. The death rate was fairly high? A. Yes.

Q. During normal times survival was not so great, but when we come to war times and war conditions expansion is extraordinary. In one year the expansion was sixty millions. A. That particular year it was stores. I can obtain the figures.

BY MR. THORVALDSON:

Q. Were you able to find out whether cooperatives paid taxes to the Saskatchewan Government under the old Saskatchewan Government Income Tax Act? A. I was asked about that before but during the adjournment I could not get it. I expect that information some time this afternoon. The administration of the Income Tax Act did not come under our department directly and we have to deal with the Department of Revenue under which it operates. However, the information is being obtained this afternoon. One of our officials is getting it.

Q. Will he be here later this afternoon? A. He will not, but he or my secretary will get in contact with me with the information.

Q. I do not know whether you are familiar with that part of the Insurance Act dealing with cooperative insurers.

That does not come under your Department? A. No.

Q. Under the Department of the Superintendent of Insurance? A. Yes.

BY MR. VAUGHAN:

Q. On page nine of your brief you quote a recommendation made by the Saskatchewan Reconstruction Council that the Income War Tax Act be amended to clarify the position of cooperatives, credit unions and federations of credit unions with respect to income tax liability. That is a general recommendation. I wonder if your Government Department could give the Commission something more definite in the way of recommendation. A. That is part of the recommendations to be found on page 88 of our Reconstruction Report. We will be prepared to file ten copies of that report.

Q. As a result of your experience in this province, and the experience of your Department, you must have certain definite recommendations in mind? A. Do you suggest that we take that up? We have been leaving that to the Commission, but if you wish us to take it into consideration we might do a job for the Commission.

THE CHAIRMAN: It would be very welcome.

THE WITNESS: We could soon give you an answer. Speaking personally rather than for the Department, I think we are prepared to recommend to the Commission that any corporation incorporated under the Act should be considered a cooperative.

BY MR. VAUGHAN:

Q. Anything that is covered by the Acts? A. Yes.

BY MR. ELLIOTT:

Q. On pages fifteen and sixteen of the brief you summarize a tabulation which you have made with regard to the financing of cooperatives. A. Yes.

Q. Is that tabulation given in some detail?

A. Yes; I have a substantial amount of information. In fact, I mention certain things.

Q. This is a summary of an extensive tabulation.

A. Yes. It has not been printed yet but it is ready.

Q. Can we have a look at it? A. Certainly.

THE CHAIRMAN: Would it be possible to have photostatic copies of these charts you have?

THE WITNESS: I think it would.

MR. VAUGHAN: These charts give a good picture of the distribution of cooperatives, and if photostats could be made of them they could be referred to at any time.

THE WITNESS: We will discuss that with your Registrar. May I say that if anything further comes up during your inquiry here that makes my presence desirable I shall be glad to come back.

THE CHAIRMAN: Thank you, Mr. Turner.

MR. PARKER: The brief next to be submitted is one on behalf of twelve independent dairies operating in Saskatchewan.

MR. GROSCH: I am appearing on their behalf, Mr. Chairman.

THE CHAIRMAN: Are you bringing a witness to read the brief?

MR. GROSCH: I have a witness to answer questions in respect of the brief.

MR. PARKER: Do you propose to make comments as you read?

MR. GROSCH: I may make comments at the end or reserve them.

MR. PARKER: If this brief contains a number of allegations of fact, and inferences from facts, it is

desirable that the Commission should have a clear understanding as to what facts are proven and what are only hearsay. The custom we have followed is that whoever is signing the brief --

MR. GROSCH: I have signed it.

MR. PARKER: If you have facts, well and good; but your witness should go on first.

MR. GROSCH: All the facts were submitted to me.

THE CHAIRMAN: Have you a client who is familiar with them?

MR. GROSCH: Yes.

THE CHAIRMAN: Then put him in the box and we can cross-examine him.

WILLIAM GRANT CARRUTHERS,

Manager,
Purity Dairy Limited,
having been duly sworn
testified as follows:

THE CHAIRMAN: Is this witness thoroughly familiar with the brief you are about to read?

MR. GROSCH: Yes. It was read over to him and others from information he submitted. I prepared the brief and he has information and can refer to it.

THE CHAIRMAN: And he will be examined upon it?

MR. GROSCH: Yes. The brief reads:

"To the Chairman and Members of the Royal Commission on Cooperatives:

"This brief is submitted on behalf of the undersigned independent companies engaged in the dairy business in the province of Saskatchewan:

"UNIFORMITY OF TAXATION - DISCRIMINATION:

"A fundamental principle underlying taxation is the rule that taxation shall be uniform. Therefore, a tax which

exempts property is a discrimination in favour of such exempt property and violates this rule. The Income War Tax Act and the Excise Profits Tax, insofar as they exempt Dairy Co-operatives, discriminate in favour of such co-operatives and against companies and persons not so exempt.

"We shall apply this principle of taxation to the three so-called 'Dairy Co-operatives' operating in this province."

There are only three companies operating as co-operatives and I have tried to set out their standing. These are the actual facts in connection with the three companies. Continuing:

"So-Called Cooperatives

"1. Midale Co-operative Association Limited, with head office at Midale, Saskatchewan.

"This Company was incorporated under the Saskatchewan Companies Act on March 24, 1925, with authorized capital of \$15,000 in shares of \$10 each, and it commenced business shortly after its incorporation. The fixed assets have been liberally depreciated and the net work is approximately \$8,000 as shown in its Financial Statement of December 31, 1942. During the war period the volume of its business has increased considerably. The Company manufactures butter and deals in produce, eggs, etc. The business is well managed and operations are profitable.

"This Company handles the product of the primary producer and only in the case of cream does it do any processing, which is manufactured into butter."

That is the small cooperative. Continuing:

"2. Dairy Co-operative Marketing Association Limited, with head office at Saskatoon, Saskatchewan, known as 'The Dairy Pool'.

"This Company was incorporated in 1928 under the Saskatchewan Co-operative Marketing Association Act, under the name of 'Saskatoon Dairy Co-operative Marketing Association Limited', but in 1937 it changed its name to that under which it is now trading. On April 16, 1937, the Association purchased from one McIntosh, creameries at Biggar and Kamsack, and a cheese factory at Leroy. On April 1, 1941, the Association took over all of the stock and fixed assets of Prince Albert Creamery Company, Limited, which was independently operated under the management of Mr. R. W. Heim, and included plants at Parkside, Prince Albert, Speers, Deben, and the Rosthern Creamery and Produce Limited, Rosthern, (the latter a subsidiary of the Prince Albert Creamery Co. Ltd.), for a price of \$152,500 cash.

"In 1943 the Young Creamery was purchased from the owner, Mr. Hugh Smith, for \$25,000, and in 1942 a cheese factory was built at Lanigan.

"The Company also manages and operates the Saskatchewan Poultry Pool. The Saskatchewan Poultry Pool operates throughout the province of Saskatchewan, and purchases from the producer eggs, and live and dressed poultry, specializing in the purchase of turkeys.

"The Company has no share capital, but is maintained by a membership and the members include dairy farmers in the districts where the creameries are operated. The Board of Directors is composed of farmer members who are elected annually. The financial statement of December 31, 1943, showed a total net worth of \$682,256, and steady progress has been made.

"Sales have shown a very substantial increase under present war conditions and there is an assured market for all products manufactured. This Association has two

large and well equipped plants for processing and pasteurization of milk and milk products. Butter and cheese are manufactured, also processed cheese similar to Kraft cheese, and in the City of Prince Albert the Company retails milk and milk products to the consumer.

"A substantial reserve has been set up for depreciation on real estate, equipment and fixtures, which originally cost over \$358,000, including the building and equipment at all branches. The surplus is accumulated by withholding a certain percentage of money payable to members in cream and milk shipments, and members are permitted to sell their interest in the Association only directly to the Association, and in event of the Association winding-up, each member is entitled to a percentage of the surplus according to the amount of his accumulated deductions.

"Under this Company's method of operation, deductions of equal amount for reserves and operating costs are taken from each 100 lbs. of milk handled, and all operating profits are held until the end of seven years, when the profits of the first year of operation are returned to those patrons still dealing with the Company. All cream shippers, whether members or not, become associate members on first delivery of produce to the Company. There is provision for non-participating members.

"Under this Company's Articles of Association, provision is made that:

'The Directors may set aside out of the funds of the members in its hands such sum as they may think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for meeting contingencies, or for the making of loans, etc.'

"Under this provision, the 'Revolving door' method of distributing profits is supposed to operate. We have no accurate information as to equality of distribution of profits under the 'revolving door' method, but respectfully suggest that full information be obtained by the Commission.

"According to the Company's financial statement, the 'tangible net worth' is shown as follows:

1941	-	\$384,209.00
1942	-	545,855.00
1943	-	682,256.00

"3. Saskatchewan Co-operative Creamery Association Limited, with head office in Regina.

"This Company was created by Special Act of the Saskatchewan Legislature, dated April 1, 1939, and is without share capital, but possesses the same powers and privileges as companies operating under the Saskatchewan Companies Act. Under the authority of this Legislation, the Company took over the business which had been previously carried on by the Saskatchewan Co-operative Creameries Limited. It assumed the liabilities of its predecessor. The outstanding indebtedness to the provincial government at that time amounted to \$1,511,505.16. By arrangement, this liability was to be paid in twenty equal annual instalments with interest at the rate of 4 per cent per annum, but without giving any special security to the government.

"In 1941 the Act of Incorporation was amended enabling the Company to become a producer-owned cooperative. These amendments provided that after depreciation reserves, etc. have been taken care of, a portion of the earnings are to be placed in a surplus account. Under the Special

Legislation, management control is vested in a Board of Management, named by the government of the province of Saskatchewan. The present Board was appointed by an order in council of such government, dated August 31, 1943. On September 10, 1943, the Company was registered under the Co-operative Marketing Associations Act of the province of Saskatchewan. Provision is made in the Legislation whereby the Company may eventually become producer-owned, but nothing has been done in that respect up to the present.

"The Saskatchewan Co-operative Creameries Limited, which was absorbed by the present Company, was formed under the Saskatchewan Co-operatives Act in 1917, and started business in a small way. Saskatchewan farmers and investors became its shareholders. It subsequently established and absorbed several competing concerns, and opened a number of branches. Later it sustained heavy financial losses on operation and got into financial difficulties, which culminated in 1939 when it found itself unable to meet its liabilities, at which time all shareholders were wiped out. The loss sustained by these shareholders was \$1,392,378.44. A new organization was created without share capital, and without any provision for the old shareholders.

"The Government had guaranteed a loan of \$600,000 to the Bank of Montreal, Regina, and was called upon by the Bank to make payment. The Government implemented its guarantee by paying the Bank the sum of \$592,203.48, which, according to Public Accounts, came from the Liquor Surplus and was subsequently written off.

"The Company was then placed in Receivership, and the

Receiver, with the assistance of the Government, established credits on which to operate the business. The Receiver carried on until April, 1939, when the present association was created. In 1938 the properties were conservatively appraised and valued at \$1,511,505.16, and the properties were turned over to the present Association for that amount, payable over a period of twenty years, with interest at 4 per cent.

"The balance which the Government had advanced to the Company, amounting to \$1,139,552.74, was written off and charged by the Government to the Public Debt of the province of Saskatchewan. The support given to the Co-operative Creameries by the Government had, in these two transactions, cost the taxpayer a total of \$1,731,756.22, and the shareholders \$1,392,378.44. The total loss sustained being \$3,124,134.66.

"The present Association started its operations in 1939 with the above named liability of \$1,511,505.16, after the debt of \$1,731,756.22 had just been wiped out. Since then, substantial progress has been recorded; liabilities have been steadily reduced. Accumulated earnings have resulted in a Surplus Account, shown in the last Balance Sheet at \$1,585,362.

"During the past few years the business of the Company has increased steadily. War conditions have created a more active demand for its products. The Company acts as a wholesale and retail distributor of pasteurized milk and other manufactured dairy products, and deals in poultry and eggs."

I understand they have now taken a hatchery at Yorkton.
Continuing:

"It manufactures butter and ice cream and sells refrigerating equipment, and does a public cold storage business. Its sales cover an area beyond the province, as it does a considerable trade in Manitoba, Eastern Canada, and the Pacific Coast.

"In addition to its plant at Regina, the Company operates at 23 other places in the province, namely: Broadview, Carlyle, Humboldt, Esterhazy, Kerrobert, Langenburg, Lloydminster, Melfort, Melville, Moose Jaw, Moosomin, Nipawin, Norquay, North Battleford, Oxbow, Preeceville, Saskatoon, Shellbrook, Swift Current, Tisdale, Wadena, Yorkton, and Weyburn.

"The Company rents from the Provincial Government a three-storey brick building, 100 x 200 ft. on Albert Street, in Regina, which it uses as a head office and its Regina operations.

"The deferred liability to the Saskatchewan Government has been reduced from time to time until today it stands at approximately \$400,000 and, with liquid assets of cash and victory bonds, the Company is in a position to liquidate its entire indebtedness to the Government at any time.

"The item 'Investments' shown in its financial statement includes shares in Canadian Poultry Sales Limited, which is a selling agency in Winnipeg, under the Company's control.

"This Company controls and operates Standard Dairy Products Company at Weyburn, Saskatchewan, which was formerly a joint stock company. The Company has operated a branch at Weyburn for many years in competition with Standard Dairy Products Company, and now operates both plants, but continues to use the name of Standard Dairy as an indication

to the public of continuation of the former company, Standard Dairy Products Limited, which Company has been struck off the rolls by the Registrar of Joint Stock Companies of Saskatchewan. To the public, the Standard Dairy appears to be a company in competition with the Saskatchewan Co-operative Creamery plant at Weyburn.

"According to the Company's financial statement, the tangible net worth is shown as follows:-

1942	-	\$758,124.00
1943	-	1,183,661.00
1944	-	1,585,362.00."

I wish to point out the change that has taken place since war-time operations in comparison with what existed before. Continuing:

"The statements concerning the above-mentioned so-called cooperative companies are based on information which we believe to be reliable, but are incomplete, and it is respectfully suggested that the Commission obtain additional information on these three so-called cooperatives to complete the records.

"The question now arises, are these companies, 'organized and operated on a cooperative basis', in order to entitle them to exemption from taxation under the several taxing acts?

"In this connection Mr. H. Heward Stikeman states:-

'1. It must be a cooperative of primary producers. Producers of manufactured goods or articles are excluded. For example, a cooperative organized to buy poultry or eggs from producers and then killing and dressing poultry or grading the eggs for marketing would not qualify.

'2. The proceeds from the sale of the products of its members must be paid back to such members on a basis of quantity and quality (less expenses and reserves). In other words, it must only act as the agent for the member, and must distribute earnings on a patronage basis.

'3. Where supplies are purchased for the use of members they must be turned over to the members at cost (plus expenses and reserves). There must be no profit arise from such transactions.

'4. The gross business done with non-members must not be in excess of 20 per cent of the total business of the cooperative.

'If the association fails to meet any one of these requirements, the Income Tax Department will rule that it fails to qualify for the exemption.'

That is why I have set out the rather detailed nature of the business which these companies carry on.
Continuing:

"Applying Mr. Stikeman's test to the business carried on by the three above-mentioned so-called 'cooperatives', it is submitted that when the companies commenced processing products received from the farmers, or when they added new ingredients or altered the inherent nature of the article, they were not entitled to the exemption provided by the Taxing Acts.

"The facts would indicate that no so-called Dairy Co-operative Company in Saskatchewan comes within the test, and that these companies are 'cooperative' in name only.

"Section 4 (p) of the Income War Tax Act, passed in 1917, provides for taxation of all corporate income

in excess of \$3,000 at 6 per cent. Since the passing of this Act, increases in the rate of the corporate tax have been made from time to time and in 1939 the Excess Profits Tax was passed as supplemental to the Income War Tax Act. The purpose of the Income War Tax Act was to provide for revenue for the Government, to carry on war expenditures, but as the tax is based on a percentage of the corporate income, provisions were inserted of a nature which would restrict expenditures and by such means increase the corporate income and proportionately increase the Excess Profits Tax. Incidentally, this policy provided for a method of control over corporations, subject to the Act. As an illustration, Company 'A',...."

This is an actual case, but the Company did not wish me to use the name, though I am quite at liberty to give it to the Commission. Continuing:

"As an illustration, Company 'A' being an independent creamery company, showed taxable profit and total tax for the war years 1939 to 1943, as follows:-

	<u>Profit</u>	<u>Income Tax</u>
1939	\$8,916.94	\$1,670.10
1940	8,360.27	2,876.56
1941	10,861.12	4,344.45
1942	23,975.58	12,568.07
1943	48,499.87	37,999.87

The same company in the six years priot to the outbreak of the war, namely, 1933 to 1938 inclusive, showed the following profit or loss and income tax:

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	Profit	Loss	Income Tax	
1938	-	\$3,701.70	-	
1937	\$26.63	-	\$60.78	
1936	-	1,601.87	71.75	
1935	2,712.53	-	569.50	
1934	4,591.70)			Two years' income tax
1933	8,251.93)		2,104.79	

"It is apparent that prior to the war the tax was not burdensome, and accordingly, the exemption from such tax, while irksome, did not provide any substantial surplus for the cooperatives. During the period of the war, as the demand for dairy products increased, and profits increased proportionately, the corporate tax (being based in a percentage basis) increased to such proportions that in some years it greatly exceeded the profits permitted to be retained by the independent companies. On the other hand, in case of the cooperatives, who did not pay such tax, it gave them an opportunity of accumulating enormous surpluses without any deductions for taxation under these Acts, until the time has arrived when the amount of the exemptions has, actually, become a subsidy to cooperative institutions.

"If we are to consider the amount of money retained by the so-called Dairy Co-operatives in the nature of a subsidy to the cooperatives, then we are immediately confronted with the fact that such subsidy is a discrimination in favour of cooperatives, and against independent dairy companies. If the cooperatives were to distribute the surplus or profits among their patrons, then there would be a further discrimination as between those dairy farmers who benefit by sending their produce to the cooperatives, as

against those dairy farmers who do not, (and for reason of location or otherwise, cannot) send their produce to cooperatives. There is, therefore, the double discrimination, firstly, as between the form of dairy company, and secondly, as between dairy farmers.

"The Revenue Department of the Federal Government is deprived of the amount of money granted by exemptions which it otherwise would obtain through taxation of the cooperatives. In order to eliminate the discrimination, both as between the companies, and as between the dairy farmers, if the total amount of the exemptions were to be distributed in support of the dairy industry, and among the dairy farmers generally, in a similar manner as the 2 cent consumers' subsidy on milk, or to the 10 cent subsidy on butterfat, then the dairy farmer as a whole would obtain the advantage of such discrimination on an equitable basis, and without discrimination one against the other.

"As is indicated by the statements herein contained, concerning the Dairy Co-operative Marketing Association, very little of this surplus has been distributed among its patrons and as for the Saskatchewan Co-operative Creamery Association Limited, no distribution whatever has been made. The original shareholders of this Company having been wiped out, it now operates without shareholders, and without patrons, and while there is provision for patrons, no action has been taken with respect to the distribution of such surplus among them, all such surplus having been retained in the form of reserves or capital account, or the acquisition of other creameries or the extension of the business.

"Since cooperatives are exempt from taxation under the Income War Tax Act, and the Excess Profits Tax Act, they are not subject to the regulations issued under such Acts. This gives cooperatives a free hand as to expenditures for advertising, repairs and maintenance of plant and equipment, and in extending their business; while non-cooperatives are subjected to strict governmental supervision and drastic curtailment in these respects. While these regulations are incidental to the main provisions of the two Acts, they do nevertheless add another discrimination in favour of cooperatives and against limited companies.

"Incidental to the freedom from supervision under such regulations, and freedom from taxation under the two Acts, large surpluses amassed are being used by the so-called cooperatives, in part, to pay capital obligations and purchase existing plants owned by non-cooperative companies, or from private individuals.

"The Dairy Marketing Association Limited, Saskatoon, in 1937 purchased from one McIntosh, the creameries at Biggar and Kamsack and a cheese factory at Leroy. On April 1, 1941, the Company took over all the stock and fixed assets of Prince Albert Creamery Co. Ltd., which included plants at Parkside, Prince Albert, Speers, Debden, and Rosthern. In 1943, the Company purchased from one Hugh Smith the creamery at Young, and in 1942 built a cheese factory at Lanigan.

"Information is available that Burns & Company, Limited, is negotiating for the sale of its plants situated in Saskatchewan to the cooperatives. This includes plants at Canora, Foam Lake, Kelvington, Medstead, Mervin and

St. Walburg. In this connection it may be stated that in 1944 Burns & Co. Ltd. sold its creameries and cheese factories in Alberta, 20 in number, to the Northern Alberta Dairy Pool, which is an indication of the trend of business expansion by cooperatives, favoured by exemption from taxation and supervision.

"The Saskatchewan Co-operative Creamery Association Limited, Regina, has recently acquired the following plants, Nipawin, Norquay, Esterhazy and Standard Dairy Products Company, Weyburn.

"The enormous cash surpluses which these so-called cooperatives were able to build up out of profits made during war years, and which they have retained through the provision of exemption from taxation, has enabled them to expand by leaps and bounds at the expense of the limited liability companies, who are compelled to pay a large portion of their profits through taxation in to the Federal Treasury, and who, through government supervision and regulation, are restricted in expanding their businesses. While tax exemptions have placed cooperatives in a strong financial position, limited liability companies have been paying their taxes until such unfair, unjust and discriminating taxation has reached a point where it means confiscation."

And I may add, vicious favouritism. Continuing:

"There exists in this province, the Saskatchewan Dairy Licencing Board, which has powers to control the granting of creamery licences. No creamery can be established or operate in the province without first having secured the necessary provincial licence. With the exception of the cooperative creameries at Esterhazy and Nipawin, and a limited licence to the Glass Dairies

Limited at Prince Albert, no licence has been granted since 1939.

"Having first obtained a provincial licence, application may then be made for a federal licence under the Dairy Industry Act, without which licence no creamery can operate.

"The importance of purchasing an existing creamery is apparent when we realize it carries with it the acquisition of a provincial and federal licence."

That is the real asset. Continuing:

"The restrictions on the granting of licences and the acquisition by the cooperatives of existing creameries is creating in this province conditions tending toward the creation of monopoly and cartels of basic food products."

Milk, cheese, eggs, poultry -- foods that appear on every man's table every day of the year -- will be monopolized. Continuing:

"Where a creamery is owned by an individual, he, too, is placed in an unfavourable position by the taxing acts as compared to the cooperatives, for at his death he is subject to succession duty which does not affect corporations. With heavy succession duties payable to the State in cash, Trust Companies have reported that in administering estates they found cases where all liquid assets were required to pay succession duties, and at times businesses had to be sold to meet the amount of the succession duty payable to the State: if no sale could be made, the assets had to be realized upon at what they would bring."

This makes the liquid position of the tax-exempt cooperatives twice as effective, because they can go and buy those stores that are forced by taxation on to the market.

Continuing:

"When we consider that existing legislation granting exemption from taxation to cooperatives has created discrimination.

"(1) As between a tax exempt cooperative organization and a taxed limited liability company:

"(2) As between a dairy farmer sending his produce to a cooperative and one sending his produce to a limited liability company, or an individual operator:

"(3) As between a cooperative organization operating without government supervision, under the regulations of the Acts mentioned, and a limited Liability company subject to such supervision:

"(4) As between a cooperative organization, tax exempt, having large surpluses for expansion, and a limited liability company paying federal taxes, and curbed in its expansion, it is not surprising to find so sound an economist as the late Josiah Stamp state in his 'Principles of Taxation':

'If the State wishes for national reasons to benefit or assist certain trades, I think, in general, the worst method is by discrimination or differentiation in taxation.' "

Discrimination undermines public morale.

Continuing:

"Discrimination undermines Public Morale:

"Under orders in council P. C. 8253, 5963, and 9384, passed under the Wartime Wages Control Act, a ceiling is placed upon wages. From wages so fixed, the employer is required to deduct from each wage cheque an amount for income tax. Employees in the dairy industry are well aware that from one pay cheque, no matter how small, is deducted

an amount in excess of that paid under existing War Taxing Acts by tax-exempt cooperatives, and employees complain of this injustice. This sense of injustice undermines public morale. It makes the collection of taxes more difficult.

"It is a well recognized policy of the federal government that no individual shall take advantage of war conditions to amass wealth. To this end, restrictions on wages, with deductions for income tax, and price ceilings on commodities, have been enacted. There are no exemptions for the individual, but among corporations this rule is violated and cooperatives are granted exemptions. Such discrimination creates dissatisfaction and unrest.

"We have shown that large sums of tax free profits have been made available to the so-called cooperatives through existing legislation for the expansion of business. Such cooperatives have extended their field of operation by the purchase of many creameries from independent operators. Every creamery absorbed by the cooperatives immediately becomes tax free and the government loses the revenue formerly received from taxation. Every such expansion by a cooperative means a corresponding recession by the Revenue Department of the Government.

"Existing conditions are undermining public interests and the longer they are permitted to continue, the greater becomes the danger of the creation of a monopoly in the dairy industry. This would not only destroy competition, but would encourage other branches of industry, throughout the Dominion to demand similar treatment from the Government. The more tax free property, the heavier the load on the property still taxable. Then taxes become pyramided, until the burden becomes so heavy that it becomes unbearable and the

whole tax structure collapses.

"During existing conditions every taxing body is surveying the field to broaden its tax base. Here is an opportunity of placing a tax upon a privileged class, which, during the earlier and more difficult period of their existence, called for government assistance, and received it by exemption from taxation, but now that these organizations have expanded and become wealthy corporations, the time has come when we hope they will voluntarily offer to bear with us the burden of income taxation, and particularly in wartime.

"Canada is not alone in having to find a solution to the problems which have arisen through granting tax exemptions to cooperatives. The same question was considered by a Royal Commission in Great Britain. That Commission reported in part as follows:

#554. 'We will now consider the income derived by a cooperative society from the investment of its reserve funds. We have already said that there appears to be no sound reason for differentiating between reserves invested in stocks and shares and reserves invested in property, and we recommend that the income from invested reserves should, irrespective of the particular mode of investment, be subject to tax.

#555. 'We recommend in effect that a society should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions, and if our proposals are acted upon it will be necessary to amend the existing law in so far as it confers special exemption on cooperative societies.

#556. 'In making these recommendations we are of opinion that we are not in any way enlarging the scope of the present income tax. We have not sought to widen or to narrow the conception of the trading profit for we think that from the transactions of a cooperative society with its members a true trading profit can and does emerge.'

"Now under the British Finance Act, registered societies, wholesale, retail and producer, and mutual concerns are taxable to the same extent as limited liability companies trading under similar circumstances.

"If a precedent is required, it is submitted, with due deference, that this Commission might study with profit the report of the British Royal Commission on income tax.

"Throughout this submission, there is no intention of attacking true farmers' cooperatives. It is fully recognized that they and their members are entitled to take advantage of the tax exemptions contained in the existing Income War Tax Act, and the Excess Profits Tax Act. It is felt that the cooperatives and their members will agree with us that in order to obtain a fair, just, and equitable basis for taxation, there must be equality of treatment throughout the entire field of taxation and that discrimination in favour of any class violates this principle.

"In preparing this brief, we did so with the knowledge that this Commission is not a Court of Law but a fact-finding body, and accordingly we are submitting such information as is available to us rather than taking the time of the Commission in an argument of the law as it exists, or drafting prospective legislation. We feel that this Commission will report on 'facts which appear to them

to be pertinent for determining what would in the public interest constitute a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Tax Act', and thereafter the services of the Department of Justice will be requisitioned to implement the report of the Commission.

"All of which is respectfully submitted.

Per: S. P. Grosch

Counsel for:

Crescent Creamery Co. Ltd.	Yorkton
Glass Dairies Ltd.	Prince Albert
Hanley Creamery	Hanley
Indian Head Creamery	Indian Head
Kelliher Creamery Co.	Kelliher
Maple Creek Creamery Ltd.	Maple Creek
Mid West Creameries Ltd.	Regina
Purity Dairy Limited	Regina and Saskatoon
Producers' Creamery	Unity
Regina City Dairy Limited	Regina
Smellie Bros. & Co.	MacNutt
Souris Valley Creamery	Estevan

Dated at Regina, Saskatchewan, this 23rd day of January, 1945.

.....

BY MR. PARKER:

Q. Mr. Carruthers, what is your position?

A. Manager.

Q. Of what? A. Purity Dairy Limited.

THE CHAIRMAN: That is one of the signatories of the brief?

THE WITNESS: Yes, sir.

BY MR. PARKER:

Q. Where does it operate? A. We have a branch in Regina and one in Saskatoon.

Q. That is an ordinary limited company? A. Yes.

Q. Are there any cooperatives in your area?

A. Yes.

Q. That compete with you? A. Yes.

Q. In what way? Can you tell us in what way their method of operation has injured your company? A. They compete with us for the securing of cream from the producer, the selling of ice cream, the selling of milk, cream and butter to the consumer.

Q. Do you think you lose some of your customers to cooperatives? A. Their having the name "cooperative" becomes a distinct disadvantage to us at times.

Q. Do you know of any customers you ever had whom you have lost to cooperatives? A. No.

Q. Do you know of any one that is with a cooperative whom you might have had? A. I would not care to say.

Q. Why? A. You are asking for a statement of fact.

Q. I am asking if you know of any such customer. If you don't, say so. A. No.

THE CHAIRMAN: Does your company pay taxes?

THE WITNESS: Yes, sir.

BY MR. PARKER:

Q. What I am getting at is this. Apart from the fact that you pay taxes, can you point to anything whereby you have lost a customer or failed to get one?

A. Probably it would be better not to make a statement on that because it would be my opinion that it might not be considered accurate.

Q. You know of no customer who has come and said: "I can get more money for my cream by selling to a cooperative?" A. No. You can't get more money by selling to a cooperative.

Q. Has anyone ever told you they go to cooperatives instead of you because they get a better price for their cream? A. Not because they were cooperative creameries. There is always a discussion among farmers, because they have a choice of a number of creameries to ship to, as to whether the results of shipping to one are better than shipping to another.

Q. You mean different limited companies? A. And cooperatives.

Q. But is there any suggestion that the fellow who ships to a cooperative gets a better price than the one who ships to a limited company? A. Not in Saskatchewan.

THE CHAIRMAN: In what way do you object to the competition of cooperatives, Mr. Carruthers: What is the main criticism you have to offer?

THE WITNESS: In the northern section of the province we compete against the dairy pools, who spend a considerable amount in propaganda work, and in the south you have at the present time a number of farmers who are becoming part owners of cooperative creameries.

THE CHAIRMAN: You are familiar with this brief?

THE WITNESS: Yes.

THE CHAIRMAN: Does not taxation bulk largely in your criticism?

THE WITNESS: Certainly, sir.

BY MR. PARKER:

Q. Isn't that your main complaint? A. Certainly.

Q. You think that taxation should be adjusted.

A. Put us on an equal basis.

BY MR. ARNASON:

Q. On page ten there appears a statement showing the profit of a certain creamery over a number of years.

A. Yes.

Q. From 1939 to 1943. In the second column there is an amount deducted for income tax. A. Yes.

Q. I notice that in 1939 the profits were \$8,916 and income tax \$1,670, leaving a net of \$7,246; and in 1943 the profits were \$48,499 and income tax \$37,999, leaving a net position of \$10,500. That would indicate that, notwithstanding the heavy tax, that creamery had improved its net position during the period? A. Very slightly, sir.

BY MR. PARKER:

Q. Any increase in capital? A. Yes.

Q. Will you turn to page seventeen of the brief. To come back to some of our old problems, may I ask whether you read this brief before coming here? A. Yes.

Q. There are a lot of facts there that you cannot verify, a lot of statements that you have no personal knowledge of? A. You have reference to conclusions drawn from facts?

Q. Figures, for instance. Where did you get them? A. I will be prepared to give that information to the Commission.

THE CHAIRMAN: This is the time.

THE WITNESS: I mean in private.

BY MR. PARKER:

Q. Take page ten, where you state: "As an illustration" -- and you go on to speak of a certain company whose name you do not disclose. You see that? A. Yes.

Q. Did you see that company's financial statement? Did they make it available? A. I have seen the report of the auditor of the company.

Q. You got it from the auditor of the company?
A. From the company under the signature of their auditors.

Q. With the permission of the company?
A. Yes.

Q. In the second part of the tabulation, I notice that in 1936 the company had a loss of \$1,601 and yet paid income tax of \$71.75. A. There are times when a company may show a loss and yet the Government will not allow certain things. In 1937, in our own company, they advised us that if we installed capital equipment they would allow it. In Regina and Saskatoon we installed a churn. In the Saskatoon branch we cemented it to the floor and in the Regina branch we fixed it with screws to the floor. The Saskatoon installation was allowed and the Regina one was disallowed because it was not a fixed part of the building.

Q. The auditors charged something to expense and the income tax people disallowed it, and the statements show one a profit and the other a loss, and you had to pay income tax? A. Yes.

BY MR. ELLIOTT:

Q. All these profit figures are profit figures as appearing in the auditors' reports? They are not necessarily accepted by the Income Tax Department?

A. That can be the case.

BY MR. PARKER:

Q. Well, isn't it the case? A. It appears to be.

Q. Turn to page seventeen. You say: "We have shown that large sums of tax-free profits have been made available

to the so-called cooperatives through existing legislation for the expansion of business." What have you included, when speaking of profits, which brings you to the point where you can say that there had been a large amount of tax-free profits? What do you include in the profits?

A. We include --

Q. Not "we" but you? A. I include any profits made in the net worth of the company.

Q. Anything more? A. And surplus credit.

Q. What do you include in profits when you say they make a large amount of profits? A. Any amount of money left, over and above, after the produce is purchased and expenses have been paid.

Q. Suppose they do not purchase cream but handle it on behalf of the producer. How do you arrive at the profits there? A. I imagine a handling charge would be set against the produce and if there was anything left over and above the original handling charge levied on the member, what was left between cost of operation and the amount collected would be profit.

Q. We are not talking about the same thing. Let us take a man who produces so many pounds of butter fat.

A. All right.

Q. He does not sell to the creamery but asks the creamery to take it and dispose of it and pay him all they can. They do so and their handling charges are so much. It does not make any difference how much, but it is so much, and there is something left over. How much of that price which the man ultimately gets for the cream includes profits?

A. That practice has never been carried on in my experience.

Q. You say that in your experience you know of no cases where farmers deliver milk and cream to cooperatives on

that basis? A. On the basis of supplying cream to them to be resold as cream?

Q. Do you know of cases where farmers supply fluid milk on the basis that they will sell it and pay all they can? A. Yes.

Q. There are such cases? A. Yes.

Q. In such cases how do you arrive at the profits of the creamery? A. The profit is what is left.

Q. After what? A. After all the expenses are taken out of operating the business.

Q. Suppose the cream is sold at twenty cents a quart and the handling charge is five cents a quart. You say the company's profit is fifteen cents a quart? A. No.

Q. What is it? A. You are only speaking of delivery cost. We have one organization.

Q. I am not talking about that, but about my imaginary company. A. Well, he would get back fifteen cents if that was all the cost that existed in the transaction.

Q. When you make this statement that there are large sums of tax-free profits I want you to tell me in your own words what you include when you calculate the profits of the different cooperatives. A. To begin with, the co-operative would have to accept the produce, would it not, in some form?

Q. You use the word accept. A. They receive the produce. They bid to purchase that produce in the open market, and after receiving the produce there are costs entailed in handling it, whether processed or sold in the condition in which it was received. Then they sell in competition in a market which is driven as high as possible these days by the seller, or as low as possible by the

consumer, or by other conditions. In this province, if the cost of the product bought in the open market, plus expenses, is less than they receive for the goods they must make a profit or surplus.

THE CHAIRMAN: What do you call the difference between incomings and outgoings?

THE WITNESS: Profit.

THE CHAIRMAN: Do you, when accounting, qualify the outgoings in any way?

THE WITNESS: I am not sure I understand what you have in mind. You are looking for a certain answer.

THE CHAIRMAN: I will take the answer you gave. That is enough for the time being.

BY MR. PARKER:

Q. On page sixteen you say that the existing legislation granting exemption from taxation to cooperatives has created discrimination "as between a dairy farmer sending his produce to a cooperative and one sending his produce to a limited liability company." What is the difference? Do they not get the same price for their milk? A. In the case of the pool, at the end of a certain number of years a dividend of some kind will be distributed so that the producer who was then dealing with them would get that advantage after that period.

Q. He gets a better price but it is delayed?

A. Yes.

Q. I thought that was a little inconsistent with what you said a little while ago. You mean it with that qualification? Turn to page two. You have set forth there a great many facts about this company. Where did you get that information? Where did you get all these facts?

A. We are prepared to submit it.

Q. But where did you get the information?

A. Certain information is given you confidentially.

Q. This information which you have brought forward here, which Counsel has read today, was given you confidentially? A. Yes. We are prepared to submit it but the sources are confidential.

MR. GROSCH: This information was obtained from an independent source. We got it confidentially and could not receive it in any other way. If we violate that confidence we have broken our word, but we would like very much to get statements from the company itself to prove that what we have said is correct.

MR. PARKER: I am testing this to see how reliable it is and how far the Commission is justified in accepting it. If they are not justified in accepting it, then it is not helpful. You are not in a position to give the source of the information?

THE WITNESS: I am in a position to give the Commission the source.

THE CHAIRMAN: The Commission is here now.

MR. GROSCH: The witness means privately.

MR. PARKER: I doubt if the Commission wishes to receive a great deal of private information, because this report has to be published some day and then it will be public property.

MR. GROSCH: May we subpoena a member of any of these companies? We would be glad to have their financial statements to prove any item that we have set out.

THE CHAIRMAN: Undoubtedly you have the right.

MR. GROSCH: I ask for that privilege now.

THE CHAIRMAN: Will you arrange that with Counsel and have the subpoena issued.

MR. GROSCH: Thank you, Mr. Chairman.

MR. PARKER: I suppose that what we have just said applies to all the information you give about these three companies?

THE CHAIRMAN: Are these three companies that you have mentioned appearing before the Commission?

MR. GROSCH: I don't know.

MR. PARKER: The manager of one company is here.

THE CHAIRMAN: The trouble is that we are here only for a limited time.

MR. GROSCH: I wish to prove that the information is accurate and that you may rely upon it.

BY MR. PARKER:

Q. Will you look at page six, in the fifth line. You say: "In 1938 the properties were conservatively appraised and valued" at so much. Who was the appraiser?
A. That information can be obtained and given to you. I cannot tell you at the moment.

Q. It is the same source? A. Yes.

Q. And on page eight it is the same? A. Yes; that is correct.

Q. There is not much left in the way of facts, not many facts that you can substantiate? A. We believe they can be substantiated.

Q. It is merely a statement. I am not saying it is wrong, but I am trying to get something positive. The rest of the argument is based on the assumption that these general facts are true.

MR. GROSCH: The witness is today swearing to the accuracy of the statement, but he is not giving the source of the information. He is verifying the accuracy of the statement.

BY MR. PARKER:

Q. Are you prepared to say that the statements set forth in that brief are true? A. I am.

Q. And that applies to all of them -- that they are statements of fact? A. Yes.

BY MR. ARNASON:

Q. Would you be good enough to look at the second paragraph on page eleven, where you say: "If the cooperatives were to distribute the surplus or profits among their patrons, then there would be a further discrimination as between those dairy farmers who benefit by sending their produce to the cooperatives, as against those dairy farmers who do not." Do you care to offer an opinion on this question which I am about to put to you: Assuming that those who ship to the dairy cooperatives receive ultimately, as a result of the distribution of these dividends, a higher price for their product than is paid to some shippers who may ship to privately owned companies, one way to iron out any inequality that may exist would be by means of personal income tax on those same shippers? Would you care to offer an opinion on that? It is a difficult question, I know.

A. It is exceptionally difficult. It seems to me that one answer to the question would be that if they were all on an equal basis everyone would be certain of having paid on the same pro rata basis; but unfortunately, under presently existing Acts, it is impossible for the two to be on the same basis. Therefore certain conclusions are drawn from the facts.

Q. I was just referring to income tax as applied to personal income. A. Yes. Your question was whether a

person receiving dividends from a cooperative should not pay those taxes?

Q. To iron out any inequalities that might exist as between one class of shippers and another. A. The only answer would be that if there were no taxation of any corporation all taxes would be taken in the hands of the individual. I believe the Commissioners are trying to determine what the Government's position is in the matter. Each person has an opinion, and I don't profess to say what amount of additional income would come into the hands of the Government by taxing the individual instead of the corporation.

BY MR. NADEAU:

Q. Have you any idea of the total business done by the cooperative associations in this province? A. No.

Q. These three in particular? A. I should imagine that these three would do in the neighbourhood of sixteen or seventeen millions a year net sales.

Q. What would that be compared to the business as a whole -- approximately? A. Anything I could tell you would be sheer guess. The others might be somewhere in the neighbourhood of half the amount done by these three companies or maybe more. I should imagine about half, but I am probably quite wrong.

Q. Are there many sales of creameries between independent operators? A. To cooperatives?

Q. Between one another? A. There have been two or three in the last four years.

BY MR. ELLIOTT:

Q. Will you look at page fifteen of the brief -- I am not asking this question to test you out but for information. There is an argument there to the effect that heavy succession

duties may cause a private business to be sold for what it will bring, the implication being that it will realize a loss. In the creamery business in the last few years, do you know of any such cases? A. No, I don't.

Q. You do not know of any particular cases?

A. No. We are talking of the general situation.

BY MR. PARKER:

Q. Does the Public Utilities Board fix the price of cream in this province? A. The Milk Control Board does; they set the price of cream for fluid consumption in the homes. But when you speak of cream I assume you mean for butter making purposes.

Q. Yes. A. I don't know.

Q. You speak of the acquisition of provincial and federal licences. Are these licences transferable from one to the other? I thought they had to be surrendered and the new owner get his own licence on his own merit. A. The practice has been that if you want a licence to go into business you must buy an existing company. Anyone who has bought an existing company has been able to get the licence.

Q. The transfer of licences does not make much difference.

A. The business is always bought on the basis of getting the licence.

THE CHAIRMAN: It is not much of an argument.

THE WITNESS: The only point of the argument is that inasmuch as these two creameries have existed for some time, and there is not much likelihood of any more existing, the licence board stops the building of new plants.

BY MR. ARNASON:

Q. At the bottom of page sixteen there is a reference to order in council P. C. 8253, passed under the Wartime Wages

Control Act, and you say that a ceiling is placed upon wages. Then you go on to say: "From wages so fixed, the employer is required to deduct from each wage cheque an amount for income tax. Employees in the dairy industry are well aware that from one pay cheque, no matter how small, is deducted an amount in excess of that paid under existing war taxing acts by tax-exempt cooperatives, and employees complain of this injustice." Can you offer any further information on that? I am not clear as to what is meant by that. A. When you receive your remuneration there is a deduction for income tax. That is true of our employees.

Q. Do you suggest that that method is not followed in the case of the employees of cooperatives? A. The suggestion is that the cooperative organizations do not pay as much as one individual in this room in a year in income tax.

Q. Cooperative employees? A. No, but the companies.

BY MR. ELLIOTT:

Q. What has that to do with employees? A. Take an employee who has been paying income tax for some years. If he steps into a more responsible position, as they often do today, he finds he is paying more. Our employees are competing against cooperative organizations at all times and are quite aware of the fact that cooperative organizations do not pay income tax, and every time the employee has income tax deducted from him he says to himself, "Here's a funny thing; why should I pay income tax and yet a certain group of corporations are not in that position?"

Q. He feels it is unjust that he as an individual should pay a tax and a corporation as a concern does not?

A. Yes.

THE CHAIRMAN: Wages, as between your company and the cooperatives, are the same?

THE WITNESS: Very nearly. Our wagon drivers and salesmen receive practically the same but there are key positions where there are variations, higher in the cooperatives and lower in ours or vice versa.

BY MR. ARNASON:

Q. Do you not think the employee of the cooperative might have the same feeling in regard to the matter?

A. I have no doubt he has.

Q. Do you know? A. I can't speak for him.

BY MR. VAUGHAN:

Q. Look at page fifteen. You say: "Where a creamery is owned by an individual he, too, is placed in an unfavourable position by the taxing acts as compared to the cooperatives, for at his death he is subject to succession duty which does not affect corporations." Was that word "corporations" meant for cooperatives? A. Yes.

MR. GROSCH: Limited liability companies as well as cooperatives. It should be "corporations as a whole". According to the Financial Post of Saturday last, the Ives Commission dealt with that. A man had plowed back his profits for years and then he died, and the income tax inspector comes along and says to the estate, "You have plowed this back and it is all profits." When they try to get enough to pay income tax over past years they may find that they have plowed back 75 per cent and they will have to sell the business, because for every \$100 they get the Government gets \$50. This makes a man more vulnerable to any suggestion about selling out. He has to sell out and there is only one purchaser on the horizon and that is the cooperative, with its large surplus accumulated through

savings on income tax. The others are a prey to the huge cooperatives who have these surpluses.

MR. VAUGHAN: I could not understand the application of this particular sentence because it speaks of the individual "as compared to the cooperatives."

MR. GROSCH: The individual is in a somewhat different position from the corporation. We have individuals in the dairy business and I wanted to cover the whole field. He does not escape, because you get him when it comes to succession duties.

MR. VAUGHAN: You are speaking of cooperatives as compared with corporations. Is there a distinction between a cooperative and a corporation in so far as succession duties are concerned?

MR. GROSCH: All corporations are on the same basis.

MR. VAUGHAN: Then "corporations" include cooperatives?

MR. GROSCH: Yes.

MR. THORVALDSON: Before the Commission adjourns, Mr. Chairman, may I ask Mr. Turner a question. He is here.

THE CHAIRMAN: Very well.

MR. THORVALDSON: I was asking you this morning, Mr. Turner, whether, under the Saskatchewan Income Tax Act, any taxes were paid by any cooperatives in this province.

MR. TURNER: In answer to that question, I may say that the revenue division informed my secretary by telephone that no cooperative in this province has been taxed under provincial income tax laws, except cooperative wheat producers. I have taken the liberty of talking with them and they will deal with this matter in the presentation of their own case.

MR. THORVALDSON: But do they say that there was taxation of cooperative wheat producers?

MR. TURNER: Yes.

-- The Commission thereupon adjourned to meet again on Tuesday, January 30, at 9.30 a. m.

.....

Tuesday,
January 30, 1945.

The Commission met at 9.30 a. m., Mr. Justice McDougall presiding.

MR. PARKER: I had proposed going on with the dairy co-operatives this morning, Mr. Chairman, but Mr. Gooding is not here and therefore I suggest that we take up the brief to be submitted by the Regina Board of Trade.

The Regina Board of Trade

MR. THOMPSON: The Board of Trade have asked me to appear as counsel to present this brief on their behalf and I am hoping that there is nothing controversial in regard to the facts. It is based primarily upon documents or instruments which I think will be accepted, with one or two minor exceptions.

I can follow one of two courses if it meets with the approval of the Commission. I take it, Mr. Chairman and gentlemen, that you each have a copy of the brief and will read it, and I can make observations in regard to the different paragraphs which can be taken down in shorthand without the necessity of my reading the brief itself. The brief is divided into a number of sections -- four or five of them -- and I could read the sections and then follow with observations after the reading of each section, or I might indicate in a word or two the nature of each section and make comments upon it.

THE CHAIRMAN: That possibly might be the better way.

MR. PARKER: With this reservation, that if there are present any interests who would like to go into any subject matter in greater detail they might indicate just where they would prefer to have the brief read at length. It is important that everyone here should not only hear what is read but be acquainted with the contents of the brief as a whole.

THE CHAIRMAN: Does anyone wish to have the brief read in full? No one appears to wish to have it read in full.

MR. THOMPSON: Perhaps I might read the introduction and then speak to it, and after that I can state what the headings are and make my commentary as I go along. The introduction reads:

"To:

The Chairman and Members of
The Commission on Taxation of Co-operatives.

"Mr. Chairman and Gentlemen:

"Introduction.

"The Regina Board of Trade is really a cross section of the business, industrial and professional life of Regina. The activities of its members are so diversified that it is sometimes difficult to reconcile their conflicting interests.

"The matters which your Commission has been asked to study, however, are of the greatest importance not only to everyone engaged in trade and industry, but also to taxpayers in every walk of life. Our Board has, therefore, decided that these matters are of such transcendent importance that we should set forth the views of the majority of our members.

"At the outset we wish to make it clear that we are not opposed to the principle of cooperation or to co-operative associations or mutual companies as a form of business enterprise. We believe that in a democracy, such as ours, individuals have a perfect right to carry on any legitimate business in any way and under any system not contrary to law. In like manner we feel that every one in the community has an inherent right to freely determine for himself with whom he will do business.

"We are strongly of the opinion that those engaged in trade or industry should have the right to carry on their

businesses on an equal footing with their competitors. To grant concessions or favours to certain types of business, which are denied to their competitors, is as unfair and objectionable as any other form of discrimination. This, therefore, is not a brief against cooperation; it is rather an appeal for common sense and fair play in matters of taxation."

As I point out in the introduction, the Regina Board of Trade is a cross section of the business, industrial and professional life of the city. The activities of its members are so diversified that it is sometimes difficult to reconcile their conflicting interests. The total membership of the Board of Trade is 796 including 30 representatives of cooperative institutions. Of these, 9 belong to the senior Board of Trade and 21 to the juniors. In other words, the membership is divided into two groups, 30 representing co-operatives and 766 representing the professions and business and industrial life.

There is no means of getting together 900 people so as to have them prepare a brief. Representations were constantly made by members to the council to do something about presenting a brief to this Commission. They were loath to do so, but finally after two meetings of the council, which has 23 members representing in the main a cross section of all these diversified interests, it was decided that a brief should be presented, the demand being so insistent. Having come to the conclusion that we would make representations, the council met and gave instructions as to what they wanted in the nature of a brief. A special meeting was held to consider the fundamentals and then the brief was drafted and read clause by clause at another meeting of the council, and it was redrafted by a committee of three to

give effect to the suggestions made.

I have been asked to present the brief. You will understand why I say in it: "Our Board has, therefore, decided that these matters are of such transcendent importance that we should set forth the views of the majority of our members." The majority is quite substantial, representing practically 766 members out of 796.

I do not intend to take up the time of the Commission by emphasizing unduly the increase that has taken place in taxation. In days gone by, when taxation was not so onerous, there was not so much opposition to the exemption of cooperatives, but gradually, as the increase in taxation has become more and more oppressive in the war years, naturally there has been a growing demand that attention be given to this subject. The source of the short tabulation at the bottom of page two is a handbook got out by the National War Finance Committee.

THE CHAIRMAN: You might put that in.

MR. THOMPSON: I think it might be just as well to read that part of the brief. Continuing:

"Increase in Taxation.

"Year by year the amount of money required to support Canada's war effort has increased by leaps and bounds. Existing taxes have been increased and new taxes have been levied, and the amount now raised by taxation far exceeds the amount which anyone in times of peace had dreamed could be raised by the Dominion of Canada for any purposes or under any conditions, and the end is not yet in sight.

"According to the tables supplied by the National War Finance Committee in connection with the Seventh Victory Loan, the following is a summary of the amounts which the

Federal Government has raised by taxation during the following years:

Year ending March 31/1939	499 millions
" " " /1940	535 "
" " " /1941	857 "
" " " /1942	1469 "
" " " /1943	2202 "
" " " /1944 (estimated):	2659 "

"To obtain these increasing amounts Income Taxes assessed against corporations (other than cooperatives) have been successfully increased and now Income Taxes and Excess Profits Taxes are together taking from 40 per cent (or 30 per cent for a company earning less than \$5,000) to 80 per cent of all of the income of such corporations."

I wish to emphasize, what is undoubtedly the fact, that so far as the Board of Trade is concerned it has always been quite sympathetic to the cooperative movement, and the cooperatives in this city will be the first to recognize that the Board has on various occasions, repeatedly, gone out of its way to render assistance. We are not here to damage the cooperatives. The majority of the members of the Board of Trade feel, however, that there should be equality in the burden of taxation.

In the next section we try to develop briefly the view in regard to equality in taxation. We point out that every business which makes a profit should carry a fair share of the cost of taxation. I cannot stress that too strongly, but I pass on now rather hurriedly because I am sure that this particular section forms the burden of all the representations you have had in your hearings.

Coming to the next section, dealing with the growth of

cooperatives, I have special knowledge of the facts there outlined, inasmuch as I was born in that part of the country at Wolsley, which is on the outskirts of the territory in which this movement had its birth. Mr. Arnason can no doubt tell you a good deal about the history of the cooperative movement in that district around Indian Head, Sintoluto and Abernethy, where the Motherwells, the Partridges and the Thompsons -- to mention a few of the names with which it is especially associated -- formed the nucleus of the group that originated the whole idea. I was a student of law in the office of Thompson and Kennedy for about three years from 1905 to 1908, I ran for that firm a little branch office at Sintoluto where we gave advice to that group. My father -- if I may be pardoned a personal reference -- was afterwards member for the constituency, and at the time of which I speak the movement was just starting up, trying to make its voice heard -- a voice crying in the wilderness.

As Mr. Arnason knows, these pioneers set out on their journey under the greatest difficulties. The group was a small one exploiting a new idea and every step it took had to be very carefully thought out if they were to get concessions which would enable them to carry on.

I think I can safely say that there was a virtual monopoly on the part of the elevators and to break it up these pioneers had to create a favourable opinion, first among the farmers and then among the rest of the community. Gradually, however, after persistent agitation and not a little fighting, they managed to get their rights recognized.

At that time, if they went to a railway station wishing to get a car in order to ship some hay somewhere there was no trouble; they could get it. But the moment they asked for

a car to ship grain they met with difficulties. They could not get it, and that led to a long fight. Finally they were given the right to have a car on the siding; but, having obtained that right, the question was -- could they ship it to a terminal point of their own choice? When they organized the Old Grain Growers Grain Company and got a seat on the Exchange they were deprived of it because they paid patronage dividends, and again there was agitation. At length they got sufficient support to induce legislatures to concede the rights which they now enjoy.

Out of these small beginnings, as I have tried to develop at some length, there has grown -- speaking first of all of the producers movement -- a great industry which is on its way up. It has fought its way from the time when there was no preferential treatment in the matter of taxation-- because they started in 1905-1906 and taxes did not become a material factor until 1919, by which time success had been assured..

There has been a tremendous growth, and that growth was taking place in a period when there were no benefits in the way of special treatment in connection with income tax and excess profits tax, since there was none in those days.

The years of depression, we hope, are now a matter of history. There has been a real change. During the drought period the farmers were under a terrible strain, and those who have not been going through the country as I have do not realize the nature of it. But the last few crops have been good and there has been a considerable reduction in debt by legislative process. The evidence of the changed situation is seen in the fact that men are now buying land for cash at good prices.

If you are in business in this country today and are familiar with the facts you know that the farming community has never been in a better position than it is in right now -- and I am speaking of farms where a few years ago there was nothing.

There is an intense fervour behind the cooperative movement in Saskatchewan. The agricultural community is its loyal supporter, thoroughly behind the principle of cooperation; and now that the farmers have money it is an easy matter to start cooperatives. It is spreading to the cities, there is a growth in the city of Regina in the co-operative movement, and it has support from the populace. I have taken from Mr. Arnason's report for 1943 the table you see on page six. That appears at page 100 in the report for the twelve months ending April 30, 1943, which I have filed. I will file the sources from 1935 to 1943. They are excellent reports.

I do not think I need labour the significance of the fact that Saskatchewan Pool Elevators Limited, during the year 1944, operated 1,089 country elevators, having since then purchased or constructed others; and Saskatchewan Pool Terminals Limited in the same year operated four terminals and owned another terminal at Buffalo, which was operated under lease by Superior Grain Corporation. The report shows that Saskatchewan Pool Elevators Limited handled 42.84 per cent of all the grain delivered in Saskatchewan and 24.95 per cent of all the grain delivered to country elevators in western Canada. No one can say that that is not a gigantic institution.

It is not, however, so prevalently recognized that the retail organization has made tremendous strides, as will be

seen from the over-all picture giving the growth from 1914 and on through the years.

In 1914 there were only 102 associations and by 1942 that number had increased to 674. But what is more to the point is the fact that the number of members had increased from 2,850 in 1914 to 83,269 in 1942, and that growth has been continuing since 1942. The statement I have given on page six brings it down to 1942. That number of members, however, really represents families and not merely members, because when a farmer joins up as a member you have his wife and children and the hired man so that this represents approximately half the population of Saskatchewan in 1942.

I want to be fair about this. Mr. Arnason would no doubt have some difficulty figuring out how many families are represented by the number of members given in the table. Take the Co-operative Funeral Home in Regina, for example. There might be a few members of that who are members of the cooperative store on Albert Street, and I would not like to be in the position of representing, in spite of Mr. Arnason's accuracy, that that actually represents the exact number of members, because there may be some duplication. However, the growth is so startling that one must recognize that a very substantial proportion of the people of Saskatchewan are behind the cooperatives already.

It is true that Saskatchewan is not the largest province in the Dominion, but it is not the smallest; and when you have an organization which has behind it such an enormous proportion of the people, you can understand that from the standpoint of taxation the question is an increasingly important one.

I suggest that you look next at the corresponding increase of sales. Under the heading "Total Sales" you will see that

the low point was reached in 1933 when the total sales amounted to \$1,715,000 odd. By the end of 1942 they had risen to \$11,725,000. But the important point which I wish to make clear to you is this -- and there is sufficient evidence to support me in this statement. You know that there were quotas in effect in 1942 and farmers could not deliver all their grain. A good deal of it was not delivered until the end of 1943. The year 1942 was the first really big crop we had but the effect of it had not been felt at the end of that year. If we had the record for 1943 and 1944, I feel sure Mr. Arnason would bear me out in the assertion that there has been an increase since then.

Next you see that the net surplus has increased from \$17,000 odd in 1931 to \$897,980 in 1942, an increase of 5,000 per cent, which obviously could not have taken place unless there had been tax exemption.

In his reports Mr. Arnason properly points out that war restrictions have very materially limited that increase. Let me give a marked example. One of the most energetic and successful branches of the cooperative movement, from the manufacturing point of view, is the Consumers' Co-operative Refineries. The Oil Controller's regulations absolutely tie the outlet to the distributor. I know, because I represent certain oil companies, and they tried their very best in every way to expand. But: it cannot be done. Once the retail outlet is tied up to the distributor it is with the greatest difficulty that he can possibly change, and Mr. Arnason has repeatedly pointed out in these reports that there is but a limited expansion possible under these conditions. You cannot expand as you like without getting a licence from the Wartime Prices and Trade

Board, and if it were not for the war-time restrictions that growth would have been very much greater.

MR. PARKER: While you are dealing with that table on page six, where you point out the growth of total sales of cooperatives, have you any information to show how the total sales of non-cooperative business increased in that period?

MR. THOMPSON: In the time at my disposal I could not get that, but it was not anything like this. It was infinitesimal compared with this.

MR. MILLIKEN: Is it not also a fact that in 1933 there were thousands of farmers in this province living on relief and therefore the purchases were less than in 1942? Would that not apply to non-cooperatives as well?

MR. THOMPSON: It would apply to both. The relief, my learned friend will admit, was generous enough, and when you consider that the Dominion Government put out \$209,000,000 in those drought areas in Saskatchewan alone, I would say that there was store after store which was almost wholly dependent upon relief orders. But they were doing a pretty substantial business, and both cooperatives and non-cooperatives could carry on.

MR. MILLIKEN: But you are not suggesting that at that time these people were spending as much money as in 1942?

MR. THOMPSON: No. That is my argument. The crops were coming in and there was an increase, and the increase has been greater in 1943 and 1944 than in 1940 and 1941.

MR. MILLIKEN: And you do not think that the non-cooperative business was increasing between 1933 and 1942?

MR. THOMPSON: I am speaking about these. I say there has been an enormous increase, and the increase has been far greater than in the case of the ordinary independent

trading company.

MR. MILLIKEN: What do you base your opinion on?

MR. THOMPSON: I did try to get the facts but I could not get them authoritatively and I would not bother taking them, but the percentage is infinitely less than this. I am sure the Bureau of Statistics could easily give the facts to the Commission but I am not dealing now with a comparison between cooperatives and non-cooperatives. I am simply stating that this movement is growing, and the evidence of that appears right in that first table. My learned friend refers to 1933; but if you go back to 1930 you will find that there were 271 associations with a membership of 16,334, whereas in 1942 that number had increased to 674 associations embracing 83,269 members. But Saskatchewan has not increased in population; on the contrary, we are sending workers to factories in the east by tens of thousands, and it is common knowledge that Saskatchewan has lost population and will probably have a smaller membership after the next redistribution.

MR. ELLIOTT: In trying to get a rough idea of trends, it is well to compare one peak with the next. In the figures of total sales you show that in 1920 they amounted to \$7,000,000 odd and in the next peak, in 1942, which probably is not the highest, the figure is \$11,000,000 odd. Taking that as a rough indication of the trend, you have an increase of a little over 50 per cent in twenty-two years.

MR. THOMPSON: Yes, that is quite true; but I have seen figures set out in a graph, starting in the year before the war, giving the increase in the cost of commodities, and the inflation was far greater from 1918 to 1920 than in all the years of the war.

MR. ELLIOTT: There was a substantial drop in prices after 1920.

MR. THOMPSON: Yes.

MR. ELLIOTT: And there was another substantial drop in the thirties, and there had been some rise in prices, as you mention.

MR. THOMPSON: Yes; but the material fact is the total number of associations. The population in Saskatchewan has not increased for some years, and yet the number of associations is rapidly increasing, and so is the membership. The benefits of the big crop of 1942 were not obtained in 1942. I am interested in a number of farms and I found there were very few men on those farms that got out five bushels to the acre at the end of 1942. On some farms I was interested in there was grain lying out in piles for which storage space could not be obtained. It was on the ground and that was not sold until well on in 1943.

On page eight I have given a table with regard to the shares of the old Saskatchewan Co-operative Elevator Company Limited. For that information I went to the manager of the Canada Permanent Trust Company, the company which completed the liquidation of the Saskatchewan Co-operative Elevator Company. He gave me a memorandum of which that is a copy, along with the liquidator's eighth distribution report dated Regina, August 1, 1933, got out by the Saskatchewan General Trust Corporation, which was the liquidator. The par value of the company's shares was \$50 and a person who subscribed in 1911 paid \$7.50. Each year with one or two exceptions a dividend of \$3.00 or 40 per cent of the paid-up value or 6 per cent of the total par value was paid in shares, so that a person by investing

\$7.50 received \$151.87 in the span between 1911 and 1924.

MR. MILLIKEN: Mr. Thompson is talking about a company that was bought out in 1926 and you will find, Mr. Chairman, when the Wheat Pool submit their brief, that they deal with that company and point out that it operated as an ordinary joint stock grain elevator company. That is why the farmers bought it. It was making profits when the grain trade was making profits at that time. It was an ordinary joint stock company carrying on business to make profits.

THE CHAIRMAN: That is what it would appear to have been, from the statement on page eight.

MR. THOMPSON: It was a farmers' organization organized by farmers for the benefit of farmers, and it was run by farmers and met with all the opposition that any cooperative would meet from the recognized grain trade, and it was successful.

MR. FRANCIS: I happen to represent a large group of cooperatives, Mr. Chairman, and at this stage I wish to speak to a general point of procedure. All the way from Vancouver I have been suggesting very respectfully, to your Lordship and to the Commission, that we shall get into great difficulties if we are to be given general statements unsupported by evidence. This morning we have an illustration of that kind of thing. With great deference to my learned friend, I suggest that if we are to have a lot of statements of fact put before the Commission evidence should be adduced from those most competent to give the facts, instead of having general statements submitted which have been received from someone else. So that on behalf of the cooperatives I represent -- quite a large group -- I respectfully suggest that we follow the procedure laid down by the Commission yesterday afternoon. A witness should be called who knows the facts, and after he

has made his statement he can be cross-examined. It makes a great difference to the cause so far as the Press is concerned, because these statements go right across Canada. We on our side are trying to give you the facts, and those representing opposing interests should do the same.

THE CHAIRMAN: Do you propose to bring anyone in support of your brief, Mr. Thompson?

MR. THOMPSON: No, Mr. Chairman.

MR. FRANCIS: You see the force of the objection, My Lord?

MR. THOMPSON: I see the force of it, but the Commission has asked for submissions.

THE CHAIRMAN: Your submission will remain, Mr. Thompson, subject to the objection made by Mr. Francis and others; but without support, the facts are not established.

MR. THOMPSON: But these documents are themselves evidence, I submit, Mr. Chairman. First of all, so far as these reports of Mr. Arnason's are concerned, they are printed by the King's Printer, Saskatchewan, and surely they speak for themselves. I am drawing an inference from them.

THE CHAIRMAN: We are speaking of the table on page eight of the brief.

MR. THOMPSON: Surely my learned friend does not want me to go to the trouble of calling Mr. Styles.

MR. MILLIKEN: That company was not a cooperative in the sense of paying patronage dividends. It ran directly as a private concern and it was because it was operated in that way that the cooperatives bought it out. It is now conducted according to the cooperative method of operation.

THE CHAIRMAN: Your objection is on the record, Mr. Milliken.

MR. THOMPSON: All I want to point out is that as

regards any statement that is made here, I checked it up before approving it or agreeing to come here. I checked this myself by going to Mr. Styles, the manager of the company.

THE CHAIRMAN: The objection is noted.

MR. THOMPSON: May I ask you now, Mr. Chairman and gentlemen, to turn to the bottom of page eight. I am trying to develop the fact that these farmer organizations, whether they are retail or marketing or manufacturing, have made tremendous strides, and the statements at the bottom of page eight merely indicate that the Saskatchewan Wheat Producers Limited, has established itself as predominant in this particular field in this province. According to the report I put in, the twentieth annual report issued by the company, which I presume my learned friend will not object to, it appears that Saskatchewan Pool Elevators Limited owned and operated 1,089 country elevators in the past year, as I have already pointed out, while it operated four terminals and owned another at Buffalo. In spite of the fact that war-time restrictions in the matter of the allocation of cars handicapped the movement of grain, they still handled over 140,000,000 bushels of grain delivered at country elevators, or 42.84 per cent of all the grain delivered in Saskatchewan and practically 25 per cent of all the grain delivered in western Canada, in the whole of the three provinces.

The report sets out clearly -- I have given the pages -- that in a few months some of the restrictions were removed and handling was stepped up to 49.5 per cent. It is apparent from the report that the association definitely believes that once war-time restrictions are lifted it will

handle a great deal more than that. Consequently, therefore, it has established itself, and I am submitting that there should be no special favours. We are not asking that the pool should be taxed any more than we are asking that the companies should be relieved.

How are you to go at it? If you can find any method by which two or three of these organizations can do business on the same plane without discrimination, all well and good. We suggest to you respectfully, Mr. Chairman, that your task is to find some way whereby there shall be no discrimination in favour of either class.

With regard to the question of the effect of taxation, I do not think I need to go into that very fully because I hope the brief speaks for itself. It is obvious, when you take the Pool's statement and find that in the season of 1943-44 it was able to make a refund of what they call excess charges of \$5,800,000 odd, that there is a tremendous profit being made -- and I say profit advisedly. Here is the situation. They take grain from anyone who wishes to put grain in the elevator. First of all, the Pool is a corporation. In chapter 180 of the Revised Statutes of Saskatchewan, you will find these organizations -- whether retail distributors or cooperative associations or co-operative marketing associations -- expressly declared to be so; and therefore, if a corporation is dealing with the farmers, members and non-members alike, taking grain and handling it, there is no difference that I know of in the way in which they handle the grain. They take the grain from the farmer, put it through the elevator, ship it and make an initial payment the same as any other elevator, and they do have a surplus.

At the present time where everything is put through the Canadian Wheat Board the situation is somewhat different from that which prevails in normal times where the grain is sold on the open market. The conditions may be different, and you may have a point where there are two elevators in open competition. There may be keen competition between buyers; they may be over-grading. Everyone knows that has been one of the troubles all through the trade. There are various combinations to be taken into account.

First of all you have a corporation dealing with the public in practically the same way -- so far as the taking and selling of the grain is concerned -- as any other elevator company, and anything they make out of that wheat, whether you call it surplus or not, is surely profit.

Then when you come to the retail store or distributor, or the retail association, what do you find? I was walking down Albert Street the other day and I saw a nice box of apples in the window of a cooperative store. I walked in and bought some apples. When I went to the counter to pay for them I was asked whether I was a member and when I said "no" -- well, I did not share in any patronage dividend.

MR. FRANCIS: If I may say so with respect, my learned friend is confusing the functions of counsel and witness.

THE CHAIRMAN: This is not a court, Mr. Francis. We are trying to get information, and the personal experience of Mr. Thompson might be of use. Anyone else might say that.

MR. THOMPSON: What I am trying to point out is that when they come to make up the accounts, and when they talk about patronage dividends, there are many people in Regina who are buying goods and any profit on the sale of a box of apples such as I bought accrues to the membership. Another

person who comes in may be a member in poor circumstances and he probably confines his purchases to staples. Surely there is a difference between the profits made on staples and the profits made on other kinds of commodities; but there is no definite account kept with each person in which there is a record of the amount of profit on the purchases. One commodity may be sold at a loss in competition, while somebody else might buy grapefruit or figs, or some fancy goods, and contribute a profit of 40 per cent. It is not a case of giving a horse, for example, to someone to sell for you and he hands over to you the money to which you are entitled, less his commission. You can put your finger on what has happened in such a transaction; but in these sales there is no possibility of tracing the results of any transaction. The purchases of a person who is unable to afford anything more than staples such as flour, oatmeal, salt and sugar, on which there is little margin of profit, enjoy the same ratio of patronage dividends as the purchases of the person who spends a lot of money on luxuries. There is no mutual trading at all. They do business the same way as any other organization and then divide the surplus as patronage dividends among a certain group who are members, and that is simply carrying business in the ordinary way. It is therefore unfair to say, inasmuch as they are an important branch of business in the province, that they should not be taxed while a competitor down the street is obliged to pay taxes. Surely there should be equity in the thing.

THE CHAIRMAN: We have had that argument before, Mr. Thompson.

MR. THOMPSON: On page thirteen -- I will skip a few pages -- I refer briefly to mutual companies, and in that,

reference is made to Government enterprises. In section 125 of the British North America Act it is provided that no lands belonging to a province shall be subject to taxation. There is a constitutional question to be considered in this connection. There may be cases in which certain organizations are turned over to a separate corporation and it might be argued that it is not Government property.

THE CHAIRMAN: The expression is "emanation of the Crown."

MR. THOMPSON: They are really creatures of the Crown handling Crown property and there are, therefore, constitutional reasons which would make it difficult to provide a remedy in the case of Government-owned enterprises. But, as the brief states, "there is no justification for continuing to subsidize the business of mutual companies to the disadvantage of their competitors which are now bearing their full share of the burden of taxation." Before I leave the question of mutuals, I may say that for years I was a member of the Regina School Board, the first two years as Chairman of the Finance Committee, and afterwards as Chairman, and early in my experience I had something to do with the question of insurance of our schools. We asked for bids, and there were three groups of insurance agents represented -- the board companies, the non-boards and the mutuals who segregated themselves from the non-boards, and when we opened the bids we found that they wrote exactly the same policy in the same wording. They all had exactly the same policy with the same conditions, and I find, on looking at my minutes of that meeting, that actually the board companies quoted a lower rate than the mutuals, and the

non-boards beat them both slightly. The prices were made uniform. The board prices were taken and contracts let for over a million in insurance. These companies do the same type of business in practically the same way.

In my experience as solicitor for a firm which passes a great many loans for mortgage companies, we find that a great deal of this insurance by mutual companies is on the same type of policy as other companies. Part of it only is on the mutual plan, and I suggest that when surpluses are earned by these people it is unfair that those who are operating as straight joint stock companies should have to pay the tax while the others escape it entirely.

I know from Press reports that you have been hearing arguments based on the report of the Parliamentary Committee of Great Britain, and therefore I will not labour that point. I take it for granted you have that report and will give it some consideration. I wonder whether the annual report of the wheat pool is available?

MR. MILLIKEN: At a later date we will be filing a number of copies.

THE CHAIRMAN: It might as well go in as an exhibit now.

MR. THOMPSON: I have a number of reports from Mr. Arnason. I have referred briefly to the United Grain Growers, the successors of the old Grain Growers Grain Company, probably the pioneer in this field. I have quoted from that report to show that that company is not opposed to taxation, and I refer you to pages nineteen and twenty. The quotation appears in the brief.

Our conclusion is this. All we wish to do is to emphasize our belief in the equality of taxation. We are vitally opposed to discrimination. If you can relieve the

ordinary joint stock company of some of its difficulties without imposing taxation on cooperatives, all well and good. All we want is equality. I quote the following from page seventeen of the brief:

"We, therefore, suggest that your Commission should adopt the principle of the recommendation made by the Royal Commission appointed in Great Britain in 1919, subsequently approved by the Parliamentary Committee of 1932, and finally implemented by legislation of the Imperial Parliament in 1933, viz:- That cooperatives should be treated in exactly the same way as a limited liability company trading in similar circumstances and under similar conditions.

"If, however, patronage dividends paid by cooperatives are to be exempt (as against the Associations) from income and excess profits taxes, then it is submitted ordinary dividends paid by limited liability companies likewise should be exempt (as against the companies) from such taxes, as they are in Great Britain. At present a cooperative does not pay any of these taxes. In the case of a joint stock company, however, the profits of the company are taxed and then the shareholders are taxed in respect of any dividends which they may receive. Double taxation of that kind is obviously unfair and the situation should be remedied immediately.

"In like manner it is submitted that mutual companies should be treated in exactly the same way as a limited liability company doing business in the same field. They carry on the same kind of business in much the same way as their competitors. They are now well established and neither need nor are they entitled to any special privileges or concessions. They have all the benefits and protection

provided by governments for their competitors. It logically follows, therefore, that there is no good reason why they should shirk their obligation to bear a fair share of the cost of providing the benefits and protection which they enjoy or why those with whom they compete should be discriminated against.

"All of which is respectfully submitted.

"Dated at Regina in the province of Saskatchewan, this 23rd day of January, A. D., 1945."

At the present time there is double taxation. The ordinary limited liability company is taxed and dividends in the hands of the shareholder are also taxed; and we say that this is obviously double taxation of the most unfair kind. We suggest in the same way that mutual companies should be treated just as limited liability companies are dealt with, because, in the main, they are carrying on business in the same way. They are getting all the privileges that their competitors are, and there should be no reason for preference. We hope that principle will be observed.

MR. PARKER: Can my learned friend advise the Commission whether the Regina Board of Trade has any views to offer in reference to credit unions?

MR. THOMPSON: I have received no instructions in that regard, Mr. Parker.

MR. PARKER: Was the matter discussed at all?

MR. THOMPSON: No, I do not believe it was; not when I was present at any rate. The main body of the Board are engaged in commerce, in industry and in the professions and they feel of course that competition between them and the co-operatives is keen. But they are not worried so much about credit unions.

MR. MILLIKEN: It may be quite clear in the brief, but I have not seen the brief. When, however, you say that you are opposed to double taxation, have you suggested whether the individual should pay the tax or the corporation?

MR. THOMPSON: All we say is that all should be put on a basis of equality. If you decide that the individual should be taxed and the corporation should be free, well and good.

THE CHAIRMAN: That is beyond the scope of our inquiry at the moment.

MR. MILLIKEN: May I ask Mr. Thompson another question. You said, Mr. Thompson, that you had thirty-two cooperative members.

MR. THOMPSON: Thirty. We have nine members of the Senior Board of Trade who really represent cooperatives. They may not have joined as such but we figure they are. The young men are the most militant. There are twenty-one.

MR. MILLIKEN: None of these nine men are on the council of the Board of Trade?

MR. THOMPSON: One is, but I do not think he attended those meetings. He had notice of them and, while he did not dissent, privately he has intimated that he did not approve of the idea.

MR. MILLIKEN: Were the rest of the council unanimous?

MR. THOMPSON: Out of a total of 23 at the meetings I have knowledge of 18 who attended. They may not have been the same 18. All of the brief was read paragraph by paragraph, though not in its final form. The final form, however, was only slightly changed.

MR. MILLIKEN: I presume you did not consult any of the members of the Senior Board of Trade who you say represent cooperatives, with regard to any of the facts or

statements in the brief.

MR. THOMPSON: I have explained that I did not consult any of them. I am only counsel in the matter. The policy was determined beforehand.

MR. MILLIKEN: You are not a member of the council?

MR. THOMPSON: No; I am not a member of the council. I was called in to help them whip the matter into shape.

The Western Retail Lumbermen's Association

MR. THOMPSON: There is another brief that I would like to submit to the Commission. It has been filed by the Western Retail Lumbermen's Association, and if I might be allowed to speak to that at this time I could finish.

MR. MILLIKEN: For my part, I have no objection.

THE CHAIRMAN: How are you presenting the brief?

MR. THOMPSON: Perhaps I might explain the circumstances under which I appear; it would simplify the proceedings. The secretary of the Western Retail Lumbermen's Association telephoned me from Winnipeg and said that his executive, after giving the matter consideration, desired to submit a brief which was not extensive, so that they would register their views on the subject. They believe in the force of repetition and they wish to put themselves on record as being in favour of equality of taxation. They asked me whether I knew of anyone else who was preparing a brief and inquired if I could send them a copy. The only thing I had at the time was a preliminary draft of the Regina Board of Trade's submission. I sent it to them and they extracted a few sentences. I did not prepare this brief.

THE CHAIRMAN: It is said that "imitation is the sincerest form of flattery."

MR. THOMPSON: They requested that I come here and present the brief for them. There is nothing in it that is not in the submission of the Regina Board of Trade. They want equality of taxation. They are in the same position as the Board of Trade, with 846 member yards, which is 84 per cent of all the yards in the prairie provinces. They have some cooperative members and, as I say, they are in the same position as the Board of Trade. They can only speak for the majority, but it is a very large majority. They asked me to go to Winnipeg last Friday when they were holding their last convention. I feel that this submission represents the consensus of opinion, practically the unanimous opinion, of from 180 to 200 members present at that convention. They are definitely of the opinion that whatever you do should result in there being absolute equality of taxation without discrimination, without favours to one class as against another. Since I presume you showed the courtesy of reading it, I leave it with you. Everything I said in regard to the Regina Board of Trade applies to this brief also.

The brief reads as follows:

"Submission of The Western Retail Lumbermen's Association"

"Introduction."

"The Western Retail Lumbermen's Association is a group of retail lumber and building material dealers operating in western Canada. The Association was organized in 1890 and its members have continuously since then served the building needs of their respective communities. Today

there are 846 member yards in the Association which represents 84 per cent of the total number of yards in the area and includes a number of yards owned by cooperative associations. The Association is thoroughly representative of the retail lumber industry in every district within the area. Every member yard carries an assorted stock of lumber, sash, doors, shingles and other building materials sufficient to meet the building needs of its respective community. In addition many of the members handle general hardware, coal, and fuel wood.

"At the outset we wish to make it clear that we are not opposed to the principle of cooperation or to cooperative associations or mutual companies as a form of business enterprise. We believe that in a democracy, such as ours, individuals have a perfect right to carry on any legitimate business in any way and under any system that is approved by law. In like manner we feel that every one in the community has an inherent right to freely determine for himself with whom he will do business.

"We are strongly of the opinion that those engaged in trade or industry should have the right to carry on their businesses on an equal footing with their competitors. To favour certain types of business, at the expense of their competitors, is unfair and objectionable. This, therefore, is not a brief against cooperation; it is rather an appeal for common sense and fair play in matters of taxation.

"It is obvious that the government must have funds with which to carry out its administration, and that these funds must come from the residents of the country. Prior to 1917 these funds came largely from indirect taxes, but the heavy expenses of World War One made it necessary to introduce

direct taxes on income in that year. This method of collecting funds to carry on the government of the country has been used ever since, and, from comparatively small and insignificant imposts, the rates have been raised to such an extent that taxes now take away a large percentage of the income of individuals and corporations. We recognize the necessity for these high taxes in time of war, and have no complaint, so long as such taxes are levied equitably, on all classes of business and individuals.

"Under the law any person, or group of persons, has the right to go into business, so long as the business is lawfully conducted. It is axiomatic that any 'right' carries with it a 'responsibility', and part of that responsibility is that every business, no matter what form it may assume, must bear its fair share of the costs of administering the affairs of the country. Much of the present confusion has arisen by reason of the fact that taxes are levied upon 'income' or 'profits' and endless arguments can be developed over the definitions of these two words. The simple fact remains that common sense and fair play demand that every business, enjoying the benefits of the country's protective laws and policies, must share equally in the cost of providing them.

"This was the policy in effect up to the time when taxes were levied on income. It was not so set out as a stipulated policy, but the effect of the tax laws then in effect produced that result. This sound policy was violated in 1917 with the introduction of the Income War Tax Act and certain groups of people calling themselves 'cooperatives' were allowed to conduct businesses of various kinds but at the same time were permitted to evade payment of their just

and fair proportion of the costs of government. This was discrimination, but as taxes were then small the margin of advantage over what was and still is known as 'private enterprise', was correspondingly small and insignificant. As taxes increased the margin of advantage enjoyed by the cooperatives increased proportionately, and we believe the growth of the cooperative movement will be found to parallel the rise in income tax rates.

"Whether taxes are high or low the same discrimination and inequality exists. With taxes at their present extremely high level the discrimination is of such proportions that the continued existence of tax-paying private enterprise is seriously threatened. During the last few years when the prairie income has been rising all forms of business have shared in the increased prosperity. The profits of private enterprise have been largely taxed away, while in the case of the cooperatives they have been allowed to retain the profits, and have been able to build up large reserves. The natural result of failing to assess and collect taxes from the cooperatives is that the movement is expanding, and at an ever increasing rate. The present discrimination in favour of the cooperatives can have only one final result, namely the elimination of tax-paying private enterprise.

"We submit that all forms of business must be placed on an equal basis in the matter of taxation just as they are on an equal basis in all other respects. Either all forms of business must be taxed equally and equitably, or all forms of business must be tax-exempt, in which case the funds required by the government would have to be secured by a tax on personal income, or from such other sources as the Government may decide.

"All of which is respectfully submitted.

"Dated at Winnipeg, in the Province of Manitoba, this
22nd day of January A. D. 1945."

.....

MR. PARKER: I propose now, Mr. Chairman, to take up
the brief submitted on behalf of the Retail Merchants'
Association of Canada, Saskatchewan Branch. The brief will
be presented by Mr. McQuarrie.

WILLIAM L. McQUARRIE,

Secretary-Manager,
Retail Merchants' Association of
Canada, Inc.,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. In what capacity are you appearing? A. I am here
on behalf of the Retail Merchants' Association of Saskatchewan.

Q. What position do you hold? A. Secretary-manager.

Q. The document that you are about to read was
prepared by whom? A. By myself and my solicitors.

Q. What method was adopted in the preparation of it
so far as your members were concerned? A. Yes.

Q. You don't understand me. What method did you
adopt in the preparation of the brief as regards submitting
it to the members and getting their views? A. That was
dealt with on the 24th and 25th of May in the Hotel
Saskatchewan. We had our annual convention and the question
was discussed and I have a resolution passed by the membership.

Q. And following that you prepared the brief?

A. Yes, with my solicitor.

Q. Was it in turn circulated to the members of the
association for approval? A. Just to the executive officers.

Q. How many? A. Five.

Q. What are their positions? A. Mr. George Whitter of Prince Albert is President and the Vice-President is --

Q. I want the five men who have signed the brief; that is all I want. A. George Whitter, President; Lewis Harvey, Assiniboia, Vice-President; second Vice-President, E. B. Smith, Yorkton; third Vice-President, Reginald Carter, Regina; and Fred R. Cosford.

Q. Are those the only five members? What does "Inc." mean? A. I may say that this is not American. It is Canadian, operated under Dominion charter and this is the Saskatchewan provincial branch.

Q. And those are the only five men out of the membership who have perused, and given approval to, what you have stated in the brief? A. Yes, that is right. The resolution that I will present --

Q. I am not talking about that, but about the members. In round numbers, how many members have you in the Retail Merchants' Association? A. From 1,900 to 2,900.

Q. That is quite a spread. Can you not be a little more precise as to how many members you have? A. I would not like to say. They fluctuate -- some here today and gone tomorrow, and more coming.

Q. Are there no records kept? A. Yes.

Q. Did you examine the records to see how big an association you have? You see my point? A. I am giving the minimum number, 1,900.

Q. What constitutes a member? A. A merchant who operates a business with a staff of four or more including himself pays a membership of \$20, and the store that has a staff of three or less including the proprietor pays \$10.

Q. That is what you require as qualification for membership. Is that what the association lays down? A. Yes.

Q. Can you give me any idea of those who could qualify in this province, if they were so minded, and who have qualified as members? A. I would say 1,900.

Q. How many businesses are there in the province? A. About 3,747. Our field men were asked to make a list of those they think are prospective members and the largest list they have is 3,747.

Q. It is a sort of rough census of the business firms of the province as handed in to you by your travellers. Is that a fair way to put it? A. Yes, I think so.

Q. Out of that 3,700 that your travellers have reported to you, you have a membership of about 1,900?

A. I think we have more, but 1,900 is a safe figure.

MR. FRANCIS: I do not want to interrupt my old friend Mr. McQuarrie, but I have an objection to raise. I refer to the paragraph on page four beginning: "It has been stated in an address delivered by G. S. Thorvaldson, K.C..." I move that that paragraph, up to the words "have been so converted", be struck out.

THE CHAIRMAN: Mr. Thorvaldson is here to support the statement when the occasion arises. I would omit that from the brief, Mr. McQuarrie. Mr. Thorvaldson will no doubt bring the point to our attention at one time or another.

MR. FRANCIS: I propose to call evidence which will be more useful on that point.

MR. PARKER: It is not only second-hand; it is at least third or fourth.

THE WITNESS: Very well. The brief is as follows:

"To the Honourable Mr. Justice Errol M. W. McDougall, Chairman, and his Fellow Commissioners Enquiring into the Application of the Income War Tax Act, and the Excess Profits Tax Act to Co-operatives.

"Gentlemen:

"I am appearing before you, today, as Secretary-Manager of the Retail Merchants' Association of Canada, Inc., Saskatchewan Branch. I think our Association can reasonably claim the right to appear here and speak on behalf of the Retail Trade of Saskatchewan. Our organization represents membership from general and drygoods stores, including grocery, meat, and fruit stores; hardware, electrical appliance and radio stores; furniture stores; automobile dealers; garage and service stations; implement dealers; men's and ladies' wear stores; drug, book, stationery and tobacco stores; also jewellery and variety stores. Our Association owns and publishes in Saskatoon, Sask., a monthly magazine, the Western Retailer. Over 3,000 copies go out to our membership and prospective members, informing them on current retailing topics."

I have here a copy of the magazine. Continuing:

"I mention these figures because the Bureau of Statistics at Ottawa, shows there are some 10,097 stores of all kinds in Saskatchewan. Some of these are quite small stores, for our field men in preparing a list of members and prospective members have never submitted over about 3,747 names. Although all these stores are not members of the Retail Merchants' Association, I believe we can reasonably well speak for all the independent merchants in Saskatchewan because we do not confine our efforts only to our members, but to all our Saskatchewan independent merchants.

"These independent stores and business places are

scattered throughout every hamlet, village, town and city, throughout all the populated areas of this province.

"May I emphasize at the outset, that the Association that I represent, bears nothing but the best of goodwill, toward the cooperative movement in this province, because the independent merchant has, in the past, worked side by side with the cooperative, and hopes to occupy that position in the future. Any criticism voiced here on behalf of the Retail Merchant is given expression to on the high ground that the cooperative is enjoying far more favourable privileges in competing with the independent Retail Merchant, than those extended to the independent Retail Merchant, and the Retail Merchant is submitting that such privileges should be withdrawn from the cooperatives."

I have here the resolution passed at our convention on May 24 and 25 in Regina. It reads:

"Resolved, that the retail merchants of Saskatchewan ask that the Dominion Government treat cooperatives of every description in the same way as other business corporations in regard to income tax and excess profits tax and that the necessary legislation be passed immediately."

That was carried unanimously. I have here a copy of my report of 1938 wherein I reported to our convention that the subject of cooperatives being exempt from income tax and excess profits tax should be discussed and dealt with.

MR. PARKER: I am sure the Commission wants all the information that can be of any value, but I doubt if the record would be assisted very much by such documents.

THE CHAIRMAN: I think not, Mr. McQuarrie. You were there and you will tell us what your brief says.

THE WITNESS: Very well, sir. Continuing:

"Our Retail Merchants have gone through more vicissitudes since this province was formed in 1905, than that perhaps experienced by merchants in any other province. The great strength and weakness of Saskatchewan lies in its lack of diversified industry. To a greater degree than in any other province, our economic life and well-being depend on agriculture, and in the past, the backbone of this industry has been wheat. There is a close relationship between the farmer and the merchant. When there is plenty of wheat and the sale of it is possible at fair prices, the retail merchants prosper with the farmer. When drought overtakes the province and/or when the prices for wheat go below production cost, the retail merchant suffers with the farmer. The merchant either survives or goes bankrupt.

"Saskatchewan suffered its greatest economic calamity between the years 1929 and 1938 with its unprecedented drought and with the price of wheat in one of those years as low as 20 cents per bushel, F.O.B. point of shipment.

"The Retail Merchants of the province welcome fair competition. We are not opposing consumer cooperatives, as such, but we appeal for equity in taxation. We ask for a fair field, with no favours to anyone. Our merchants have, for years, been meeting, to the best of their ability, the competition of large department and mail order houses, from Eastern Canada, which, in late years opened branch stores in most of the important commercial centres throughout this province. Our merchants have also had to meet keen competition from large chain store groups. Our merchants have been meeting this competition, without undue complaint, because they have felt, particularly since large mail order houses established branch stores within the

province, that this was legitimate and fair competition, and also because these large merchandising concerns have been made subject to the same kind of imposts and taxes that the independent merchants, themselves, have.

"A private business man will profit by the thrift and stability which usually are important by-products of consumer cooperation. This is on the condition that such cooperatives are given no more privileges than he. It is also based on the assumption that consumer cooperatives will be a business and social movement, and not a political movement, and that it will not attempt to create a co-operative monopoly. Fair competition with private enterprise is needed just as much by cooperatives, in their business, as a stimulant, as it is needed by private business. So, while independent merchants in Saskatchewan may not like to see another type of merchandising injected into the trade, to share the all too small volume of business, still, they do not object, providing that this type operates on the same basis, with no advantages over the independents.

"The Retail Merchants' Association in this province believes that any group of people who feel that they can purchase their requirements more advantageously through co-operatives than through private enterprise, should be fairly accorded their rightful opportunity to make the effort, but this Association most strongly resists the claim of such cooperatives in this province that they are entitled to special preferred treatment, by way of exemptions from certain imposts not accorded Retail Merchants in private competition, under that fiction that their business does not give rise to profits.

"In talking, just the other day, with one of our

substantial merchants from southern Saskatchewan, he stated to me that this matter of inequity in taxation was the most important matter before the independent merchant today, and that if the present inequity in taxation is not corrected and soon, -- that he, in self-preservation, will have to dispose of his stock while he has something to sell. He stated that he could not continue to pay income taxes and excess profit taxes, and stay in business, while his opposition, the cooperative store, paid neither income taxes nor excess profits taxes.

"When cooperatives were few and far between, and when these societies were granted certain exemptions from income taxes and from excess profits taxes, it was not a matter of great moment to the every-day taxpayer; but when the movement has reached the proportions that it has reached in this province, the matter of these exemptions is one of great concern.

"This Association in Saskatchewan is, perhaps, interested to an even greater degree than individual merchants and corporations in other parts of Canada, in the matter of co-operatives, for the simple reason that the cooperative movement has obtained a greater impetus in Saskatchewan than elsewhere in Canada. Were those cooperatives required to meet the same imposts as our own independent merchants, I should not be here making this submission; but we are not in this position. We are heavily handicapped in this race for survival, due to the fact that by the law under which cooperatives operate, the dice have been loaded against the independent retail merchant as compared with the co-operatives. Thus, on account of this inequity, the very future of the Retail Trade in this province is imperiled.

"The growth of the cooperative movement in Canada, (see Leader-Post, December 1, 1944, Canadian Press dispatch) has been very rapid. The total number of shareholders and members financially interested in Canadian cooperatives

number	585,826
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Patrons number	608,680
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Total Canadian business of such cooperatives in 1943 was \$352,785,598. The value of the cooperative business of each of the nine provinces of Canada for that year was as follows:

Prince Edward Island	\$ 3,051,465
New Brunswick	3,487,761
Nova Scotia	8,847,127
British Columbia	20,820,791
Inter Provincial	34,566,018
Manitoba	35,933,499
Quebec	38,708,194
Alberta	50,980,411
Ontario	55,966,902
Saskatchewan	100,423,432

In other words, Saskatchewan cooperatives, serving 800,000 people, do almost twice as much business as Ontario co-operatives, with between three and one-half and four million people. Or, putting it another way, each Saskatchewan citizen bought from cooperatives in 1943, \$125 worth of goods, as compared with \$15 worth of goods bought by each individual in Ontario. Or, putting it still another way, Saskatchewan has done more business through cooperatives, than the two most populous provinces of Canada, combined, with the province of New Brunswick thrown in for good measure. From these figures alone, it will be appreciated why Retail

Merchants in this province see the necessity for presenting their case before this body."

In the part omitted I was saying that we did not have definite information on the number of businesses that had been changed from independents to cooperatives. Continuing:

"It has, however, as late as the 8th of January of this year, been advised by the Department of Co-operation and Co-operative Development at Regina, as follows:

'Information made available from new cooperative associations applying for incorporation during 1944 would indicate that about ten independent stores had been taken over by them during the year. There are, however, a large number of bulk commodity trading associations in operation throughout the province, which are incorporated under clause (a) Section 5, of the Co-operative Associations Act, with objects similar to those granted Associations operating co-operative stores. These bulk commodity cooperative associations may, by the powers conveyed under their charter, expand their business at any time for the purpose of acquiring and operating a cooperative store. This expansion, in some instances, includes the operation of a store acquired from an independent merchant. In many of these cases, the registrar will have no information respecting the purchase of the store until the annual return of the Association has been filed for registration after the close of the fiscal year. Since the 1944 annual returns will not be received from the cooperative associations for some months, we regret that we cannot, at present, furnish you with full information along the lines you have requested. I might state, however, that from information

received to date, we believe that probably about forty independent stores, in addition to the ten we have mentioned, have been taken over by cooperatives in Saskatchewan during 1944.' "

That was Mr. Turner's letter. I am unable to say how many stores have been taken over but I know there have been several independent merchants who have sold out to co-operatives. Continuing:

"With the information thus received from official sources, it may be highly probable that the statement made by Mr. Thorvaldson, in his speech, is approximately correct.

"It is admitted that these figures do not answer the question whether the position taken by the cooperatives is sound, legally or not, but they do show, as nothing else will, the need for relief from the present tax exemptions enjoyed by cooperatives. These figures mean that in so far as Saskatchewan is concerned, if the present trend continues, and the present unfair tax exemptions for cooperatives continue to be a part of our Federal Government policy, it can only be a matter of time until private business in Saskatchewan will have to give up the ghost, and be a thing of the past. And during such period, the Federal Government will be deprived of taxes which we feel cooperatives should pay.

"Cooperatives predicate their contention that they should not be subject to the payment of Federal Income Taxes and Excess Profits Taxes, upon the sophistry that their earnings are not profits but rather are savings. They state that the principle underlying the doctrine of mutual trading is that there must be two parties to a trading transaction; that where the buyer and seller are identical, there is no trading and any so-called surplus is not the profit of trade.

As they express it, patronage dividends paid by cooperatives are not properly taxable, because they do not represent earnings, but rather represent savings or over-charges to the owner members, which are being properly returned to them, inasmuch as a cooperative, by its very nature, cannot make a profit. They claim that no profits can arise from their operations, because they operate at cost, but since cost of operation cannot be accurately estimated in advance, cooperatives sell at a safe margin above anticipated cost, usually at prevailing market prices in the same community. Periodically, they say, the savings are returned to their patrons, who created these savings through their purchases, in proportion to their respective patronage. These savings, they argue, are not a profit, but simply over-charges incapable of being estimated in advance, and subsequently, on being ascertained, are returned to their members.

"It is suggested with respect, that this assumption of their operations is altogether invalid. This assumption ignores the all important fact that all cooperatives are legal entities, the same as joint stock companies, and that these legal entities are the exclusive owners of their respective businesses and societies, and that the sale and purchase of goods is an independent and valid sale by those cooperative societies to their members.

"Moreover, if the argument of the cooperatives that they are legally entitled to be free from income tax and excess profits taxes, is sound, it might well be that they would eventually occupy the major portion of the business field of this country. The result would be that there would be a drastic reduction in the number of business concerns and corporations to be taxed by the Government, from which the

Government would secure revenue. The further result would be that the rate of taxation would have to be drastically increased and pyramided on the remaining portion of the business community of this country, which was still subject to taxes, such as income tax and excess profits tax. At the same time, the proceeds of these taxes would be distributed for the benefit of the whole community, including cooperatives and private enterprises alike.

"It is possible that the significance of a tax or its collection may not be questioned at a given period of a nation's or a province's history, because of the inequality of exemptions granted to certain members, but when conditions alter, the unfairness of such exemptions becomes apparent in the following cases:

1. When cooperative societies reach that eminence when they are no longer truly mutual concerns.
2. That the tax structure when such exemptions were granted was a very modest one.
3. Where the necessity of providing funds to carry on the war is so urgent, that exemptions should not be granted.
4. That no body of persons or cooperatives or otherwise, would be able to obtain today, from Parliament, similar advantages.

"It is suggested that, in this connection, some cooperatives in Canada, have become more and more monopolistic in tendency, and less and less mutual concerns.

"The cost of carrying on the activities of our Federal Government before the war approximated 10 per cent of the national income of that day. Some statisticians claim that after the war with our vastly increased expenditures, this

well may be within the neighbourhood of 25 per cent of the national income. Before this war taxes collected by our Federal Government approximated \$500,000,000 per year. It has been suggested in authoritative sources that this annual expenditure after the war, may total \$1,800,000,000 or thereabouts. This would be over and above funds provided by provincial and municipal taxation. If this estimate be correct, and with this prospect in view, does any reasonable man feel that the imposts made necessary to raise such revenues can be paid by a decreasing number of Canadian citizens, in order that an increasing group of cooperatives in Canada shall be exempt from many taxes which will go to make up our annual budget?

"It is submitted that the time is almost here where the tax burden will reach that magnitude in this country when exemptions will have to cease. When that event does come about, and cooperatives are then taxed like other corporations or other individuals, and if in the past such cooperatives found that certain tax exemptions were necessary for their continued existence, then when cooperatives are taxed uniformly as other concerns, they will surely disappear when their special favours cease.

"One sure way to destroy private enterprise and the creative initiative of private enterprise would be to continue and accentuate these exemptions. Such practice would then surely push us into our greatest depression.

"Exemptions from Income Tax for cooperatives amounts to a subsidy equal to the tax which would otherwise have to be collected from them. With the more limited buying facilities of independent Retail Merchants compared with the greater buying facilities of cooperatives, it will be only a matter of time when the average store or retail business,

privately owned, will be forced out of business.

"This subsidy is payable annually out of the national revenue, that is, by other taxpayers. Every increase in tax rates, every imposition of a new tax (Excess Profits Tax, for example) every expansion of the cooperative movement and every expansion of business done by cooperatives has meant an increase of this subsidy.

"Moreover, shareholders of consumer cooperatives, are exempt from paying income tax on their patronage dividends, but every dollar of stock dividends paid to private enterprise shareholders, is subject to double taxation, first when earned as a profit by the private enterprise company, and second, when paid as a dividend to the owner of the stock. Is this practice fair? Is it Equity?

"Private enterprise does not shrink from the challenge of cooperatives, as such. They feel, however, that the same tax responsibilities should be laid on all business. The present inequity is due to the growing belief that one of the fellows on the hand-car is doing all the pushing, while the other fellow gets a nice free ride."

I had that typed before I read some of the other reports. Continuing:

"The cooperatives, through extending price advantages, in the shape of rebates or patronage dividends to their customers, can thus unfairly compete with private enterprise and eventually drive it out of business. Furthermore, by the expedient of issuing patronage stock against dividends and avoiding the payment of income tax on such earnings, cooperative organizations are able to accumulate capital and build up reserves, either for expansion or to meet hard times."

Since I got this prepared I have received a message from one of our merchants bearing on that point. I got it

since I had this printed. If you will allow me to do so, I would like to read the following letter I have received from him:

"Hello Mac.,

"I am sitting at breakfast and the following thought came to me re your brief for co-ops.

"One of the largest contributors to profit is volume. A firm or individual can greatly increase their profit if he or they can increase their volume. Naturally when the co-ops know they can distribute their profits back to their patrons they have one of the greatest factors leading to volume.

"Gone is the day when a customer does not know selling and comparative prices. Intensive advertising, radio, people moving abroad more, make the public price-minded.

"Take my own case for instance. Last year my turnover was \$225,000 and if it were possible for me to convert back to my customers \$15,000 to \$20,000 by way of a dividend promised more or less last year, how much more could I not have increased my turnover and what we call volume, and the layman knows the more business done the less the cost.

"Increased turnover does not require increased expense to the degree of comparisons. Rent, taxes, light, fuel, and most fixed costs are not increased if staffs are. It lowers rather than increases cost per cost of selling.

"This word volume can become a steam-roller as it were, under co-op conditions and methods. Eventually we will find ourselves being served from a large buying

centre whose only thought will be 'sell for less.'
Employment will be cut to a minimum. Window displays will go by the board. Smart attractive shopping places will be replaced by just a quartermasters' stores as it were, and the buying public will wish themselves into high individual taxation brackets -- because (I like not the word) where are the taxes to come from."

This man, after paying income tax on \$18,000 had left only \$6,783 and he was unable to give any dividends. I can give the name of this gentlemen. He says: "Please use this in presenting your case for equality of taxation, which I hope will be a success. The name is J. Shibley, Jr.
Continuing:

"The Financial Post of September 30, 1944, reported that the governments of the Prairie Provinces, at a meeting in Winnipeg, in September, last year, pledged, though conditionally, to extensive support of a new scheme of co-operative distribution of farm implements in western Canada. The distribution, if carried out, will be through Canadian Co-operative Implements, according to the report. The representatives of the governments of the Prairie Provinces promised that each government would lend this cooperative one-quarter million dollars, or a total of three-quarter million dollars, providing the cooperative could raise a total of \$750,000 to increase its present capital from one-quarter million to one million dollars. When this plan materializes, this will mean but another income tax and excess profits tax-exempt cooperative doing business in Canada, and forcing still further more taxes on non-cooperatives. The irony of this whole proposal is that private business will have had the privilege of contributing a major percentage of this

\$750,000 out of their own money, to help put themselves out of the implement business.

"The following is taken from the Pennsylvania Review:

'George J. Holyoake, Historian of the Rochdale Pioneers, has given probably the clearest of all definitions of cooperation. "Cooperation supplements ordinary economy by organizing the distribution of wealth; it touches no man's fortune. It causes no disturbance in society. It gives no trouble to statesmen. It enters into no secret association. It contemplates no violence. It subverts no order. It envies no dignity. It asks no favours. It keeps no terms with the idle. It will break no faith with the industrious. It asks no special privileges. It seeks no Government aid. It fears no competition in trade or any branch of production. It abhors monopoly and will fight to the bitter end. It seeks healthy competition, knowing that this is the soul of all true progress. It means self-help, self-dependence, and such share of the common competence as labour shall earn, or that it can win, and this it intends to have."

"I suggest with respect that cooperatives, as we understand them in this country, in view of the special favours and subsidies that they are continuing to ask and claim, have departed very greatly from the principles to which they subscribed in the early days of their history. Cooperatives are asking favours. Cooperatives are asking special privilege. Cooperatives are seeking government aid. Some cooperatives are becoming monopolistic in tendency.

"There are two ways of transforming a free enterprise economy into a state-owned monopolistic or socialistic economy.

"a. One is the assumption by the State by legislative action of the ownership and control of the economic resources of the country.

"b. The other is by way of taxation. There are two branches to this second method. Either one or both can be used effectively to achieve the desired end. One is by such excessive taxation as to destroy any initiative to individual economic progress. This may even taken, in disguise, the form of a capital levy. The other method is by such discrimination in taxation, either as between individuals, groups or combinations of capital, as will, in due time, direct and force all business and industry further into the arms of our three forms of Government in this country, Municipal, Provincial and Federal, or into other tax-exempt associations, carrying on business in Canada. Cooperatives are one of such associations.

"Chief Justice Marshall, perhaps the outstanding Chief Justice in the history of the United States in its formative period, 1800 to 1830, had this brief comment to make about the power to tax: 'To give the power to tax is to give the power to destroy.' This maxim is even more true today than ever before.

"The exemption of cooperatives from income tax and excess profits taxes during this period of high war taxation will enable some of them after the war, to emerge with huge surpluses, built out of tax free earnings at a time when their competitors taxed to the limit, during this war, will emerge in a weakened condition.

"Mr. Chairman and Gentlemen: In preparing this brief for you, I contacted a number of firms in Saskatchewan, who are members of our Association and asked them that they

give me, confidentially, figures from their income tax and excess profits tax returns for 1943, which I might include in this brief. They gave me these figures.

"The comparisons made between the income taxes and excess profits taxes actually paid by these firms, and such taxes as would be paid by cooperative associations, were there such cooperative associations doing business in the same place, is based on the assumption that such cooperative associations would conduct their business in such a manner as to enable them to gain complete exemptions from such taxes, by virtue of the Income Tax Act and the provisions of the Excess Profits Tax Act.

"It is the opinion of this Association that the vast majority of such cooperative associations doing business in Saskatchewan, so operate their business as to bring themselves within the provisions of the said two Acts, so that they pay no income taxes and no excess profits taxes whatever.

"Example No. 1

"This is the figure that one firm gave me. They operate as a limited liability company, under the Companies' Act.

Earnings for a year	\$29,000
Dominion Income Tax Paid	\$ 5,256
Excess Profits Tax Paid	<u>17,900</u>
Total Income and Excess Profits Tax	<u>23,156</u>
Net earnings left for dividends, expansion, reserves, etc.	\$ 5,844

This is how a cooperative company, in the same line of Trade, in the same place, and making the same profit would show its return.

Earnings for a year	\$29,000
Subtract Dominion Income Tax	nil
Excess Profits Tax	nil
Total Income and Excess Profits Tax	<u>nil</u>
Net earnings left for dividends, expansion, reserve, etc.	\$29,000

Example No. 2

This is a small store, where the

Earnings for a year were	4,972.51
on which the merchant, operating in his own name, as an independent merchant, paid Income Tax of	<u>1,165.15</u>
leaving net earnings of	3,807.36

A cooperative store such as the above, earning in a year \$4,972.51 would pay no income tax.

Example No. 3

This is a store operating under the Joint Stock Companies' Act; has very few shareholders, is a private corporation; they have been operating for over 20 years.

For 1942

Their earnings were	20,083.68
Income & excess profits tax	<u>18,634.53</u>
Net earnings for dividends, expansion, etc.	1,449.15

For 1943.

Their earnings were	28,166.29
Paid out in income and excess profits taxes	32,704

The reason that the tax is higher than the earnings, is because that \$8,167 was transferred to surplus, due to the fact that this reserve was not now required as part of the reserve which has been built up by the Company, over the period of 20 years.

For 1944.

Their earnings were	\$56,400
Estimated taxes for 1944	<u>44,500</u>
Net earnings for dividends, expansion, etc.	\$11,900

A cooperative store doing the same amount of business in the same line of trade, would have paid no taxes at all, in any of these years.

Example No. 4.

This is quite a large store, and for 1943

Sales were	\$125,000
Gross profits were	45,500
Net profits were	6,882.95
Income and excess profits taxes were	2,733.16

Such a store, under the cooperative plan, would not pay any tax.

Example No. 5.

This member operates as an Incorporated Company, Limited, and does quite a large business. They feel very strongly that since they pay, in income and excess profits taxes, around 88.6 per cent of their profit, when a similar business to theirs, if operated under the cooperative plan, would not pay any tax at all, they feel they are not getting fair play.

For 1943.

Profit	\$57,651.22
Life insurance premium not allowed as an expense	976.51
Excess depreciation	930.45
Xmas bonuses	<u>225.00</u>
Earnings or taxable income	59,783.18
Income and excess profits taxes which is 88.6 per cent of profit of \$57,651.22	51,133.77
Less refundable portion	<u>9,073.50</u>

(For 1943 cont'd)

Net Tax after deduction of refundable portion
which is 73 per cent of profit of \$57,651.22 42,060.26

Net earnings for expansion, dividends, reserve,
etc. \$17,722.92

A cooperative company doing the same business in the
same line of trade would pay no taxes at all.

Example No. 5 (b)

Mr. Chairman and Gentlemen, since having this brief
mimeographed, I have been given the following figures from
a Wholesale Company doing business in Saskatchewan. They
show -

Their taxable earnings for 1943 to be \$755,000

They paid income and excess profits taxes of 553,000

Leaving a net earnings to the company, for
dividends, expansion and reserve of \$202,000

"A commercial report dated May 5, 1943, on the
Saskatchewan Co-operative Wholesale Society Limited of
Saskatoon, set forth their

Total net annual sales to be \$3,751,706

That commercial report shows them to have
made a net profit of , 96,468.32

"There is nothing in the Commercial Report to show that
the Saskatchewan Co-operative Society Limited paid any
income tax or any excess profits tax on the year's operations.

"Both wholesale houses referred to here, are doing
business with retail merchants throughout Saskatchewan,
apparently, as far as a layman can see, in the same way.
The Independent Wholesale Company operating as a Joint Stock
Company, paid to the Government in Income and Excess Profits
Taxes, \$553,000. I did not ask Mr. Robert McKay, Manager of
the Saskatchewan Co-operative Society Limited, if his Company
paid any income or excess profits tax during 1943, but I
was unable to find anything in the commercial report of his

company's operations, to show that any such payment was made, and I verily believe that, operating as a cooperative, they are not required to pay any such taxes."

I have here a copy of the Commercial Report.

Continuing:

"Example No. 6.

This is a store selling pretty much one line of merchandise, and operating under the Joint Stock Companies' Act. They have a staff of three, including the proprietor.

Earnings for 1944 were	\$14,176.74
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Income tax for 1944 figured to be	\$2,552.35
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Excess profits tax for 1944 figured to be	<u>7,586.95</u>
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Total income tax & excess profits tax	<u>10,139.30</u>
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Net earnings for dividends, expansion, reserve, etc.	\$ 4,037.44
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"A cooperative store doing the same amount of business in the same line of trade, in the same place, according to the cooperative plan, would pay no tax.

"Quoting Editorial in Hardware and Metal: 'It is currently estimated that \$100,000,000 for 1943 and more for 1944 would be payable in income tax by cooperatives if they were not exempt.'"

MR. FRANCIS: Mr. Chairman, I would move that the reference to \$100,000,000 be deleted. The statement is made that "it is currently estimated that \$100,000,000", and so on.

THE CHAIRMAN: That can remain. It is only a journalistic comment.

THE WITNESS: I don't object to having it cut out. It has been quoted in a great many places. Continuing:

"You have frequently been told, no doubt, since your sittings began, that in Great Britain, cooperatives and mutual companies have enjoyed exemption from taxation, except on lands and buildings owned by them, and in respect of lands in their own occupation. That their trading profits were not taxed. That by the provisions of the Finance Act of 1933, cooperative societies of every description, wholesale, retail, and producer, and mutual concerns, became taxable to the same extent as limited liability companies, trading in similar circumstances and under similar conditions. That, in brief, the Finance Act, made all transactions of any company or society, with its own members, on which a profit or surplus is earned (which would be rated as profits of the trade, if they were transactions with non-members) liable to the tax; but any discount repaid, dividend or bonus granted to members or other persons on account of their transactions with the company or society (provided it is calculated according to the amounts paid or payable to or by those members or other persons, or according to the magnitude of their transactions) is to be excluded from the profits by being treated as trade expense.

"Few people have a finer perception of social justice than the British; and no people have a clearer conception of fair play and equity than they. And so with the development of cooperatives there, from truly mutual concerns to huge commercial concerns, the tax laws of that country were amended to wipe out the former inequity.

"The Retail Merchants' Association of Canada, Inc., Saskatchewan Branch, is seeking tax equality, and that the same tax rule that applies to independent private merchants, should apply to all commercial enterprises, regardless of

ownership or method of operation. It also submits that co-operatives should pay income tax on the surplus which they retain and do not distribute, as well as on patronage dividends, in the same manner as independents. I am referring to those cooperatives which are incorporate bodies enjoying all the limited liability of any limited liability ventures.

"I would like to emphasize that cooperatives should be subject to the Excess Profits Tax, the same as any person or corporation, as cooperatives have enjoyed a greater volume of business, these last five years than they did immediately preceding the war. If it is right and just that private merchants and corporations should pay this tax, then cooperativesshould do the same.

"In conclusion, it is suggested that the Parliament of our Country has a very fine and a very strong British precedent to follow in this matter.

"All of which is respectfully submitted:

(sgd.) W. L. McQuarrie

On behalf of the Officers and Members of the Retail Merchants' Association and Merchants, Generally,
of Saskatchewan."

BY MR. PARKER:

Q. Will you turn to page eleven, Mr. McQuarrie, where you start giving examples. In that first example which you give, you show a limited company with earnings for a year amounting to \$29,000, then you go on to say: "This is how a cooperative company, in the same line of trade, in the same place, and making the same profit would show its return." That is taking a good deal for granted, assuming

that they make the same profit. You say that, assuming they make a profit, they would show net earnings for the year of \$29,000. As a matter of fact that is the whole point. They do not have earnings or profits, so how could they make a return like that? A. Yes, I think that is right. I think they have profits.

Q. How? That is the whole point, is it not?

A. Here is a case where we have net annual sales of \$3,751,706 and net profit, \$96,468.

Q. Where is that? A. In the Commercial Report.

Q. Who published that? A. Dun and Bradstreet.

Q. That is profits of what? A. The Saskatchewan Co-operative Wholesale Society.

Q. And it says they had profits of that amount?

A. That is what it says, and they could not get that from anybody else but the members.

Q. Is it on the strength of that that you work out these samples? A. No. I have given facts from independent merchants which they gave me, and I would like, with your permission --

Q. Just a moment. Confine yourself to this point for the moment. You set out the taxes paid by an ordinary company of the size you indicate and then you go on to make the argument: "This is how a cooperative company in the same line of trade, in the same place, and making the same profit would show its return." On what basis do you say that they would make a profit, trading as they do?

A. Now sir, I think I would say this. I have been watching these cooperatives and remember, I have watched them grow from the time of the loading platforms back in 1898 and 1899, and I have a lot of sympathy for the farmers. But

we who have watched these people grow know that they started in a small way while today they are in business in competition with the ordinary merchant, with men who came into the country with the farmer and helped to build up the country, and they are making a profit the same as the merchant is doing. That is my experience in everyday life.

Q. You can say that fifty thousand times, but it does not prove anything. What is wrong with the argument of co-operatives when they say that they do not make profits at all? You are assuming that they do; they declare that they do not. Can you help us on that? If you can't, then I won't bother you. If you can help us, go ahead.

A. They are not in business for fun. They are making money and using that money, which we think they should be paying in income and excess profits taxes to buy new buildings and to get a new start in life after the war is over.

Q. Turn to page six of the brief. There is a point there that bothers me a little in the second last paragraph. To summarize, I think I can put it this way: The trend is that if this movement is allowed to go on the cooperatives will in future occupy a wider and wider portion of the economic field, and to the extent that they grow, other business will be crowded out. Suppose that were perfectly true, what harm is there in that? Isn't that perfectly proper? If it is good, why should it not occupy the whole field?

A. I think that in answering that question I would say this. Some of these merchants have been in the country a long time and up until 1929, 1930 and 1931 they were doing business in the way business had always been done here -- and I am speaking from actual knowledge. These farmers came to the country without very much money.

Q. Isn't that the very reason the cooperatives sprang up, because they came without very much money and thought they could save a little by doing business in this way? Isn't that the answer? A. No. They started because they wanted to get a market for cattle and grain. When the country was opening up, not only farmers but business men came and started stores and distributed merchandise. The farmer did not have money to pay for stuff and he got credit from the merchant, and at the end of the year the crop was threshed he was man enough to come in. I want to state on behalf of the farmers that they were wonderful.

Q. I am merely putting one or two questions. Just tell us in a word what great harm will be caused, and who will suffer, if they keep growing and growing? A. I think there is a threat there and the merchants are selling out because of that threat and the fear that they will be wiped out.

Q. If it is such a good thing, if all these merchants can get rid of income tax by doing what you say they are doing, why do they not all do it as rapidly as they can and get it over with? A. When the chain stores came into the United States and Canada their plan was to carry on and sell reasonably cheap; but when they get a monopoly, just you watch the prices go up. It might possibly happen with these farmers; they might do that.

Q. I want to know what harm you think there will be. If the trend continues the way it is, then to that extent corporate income tax goes down. Is that true? A. Yes.

Q. Suppose that happens; cannot the Government find

some other way of raising that lost revenue -- some other way which would be fair and equitable? What would you say to that? A. As I said a moment ago, we have these merchants who helped to build up the country but they are selling out for fear that they will be wiped out.

Q. Turn to page three. You make a statement on which you might make some comment. You say: "...but this association most strongly resists the claim of such cooperatives in this province that they are entitled to special preferred treatment, by way of exemptions from certain imposts not accorded retail merchants in private competition, under that fiction that their business does not give rise to profits." Why do you say that is a fiction? It has been seriously argued before the Commission that it is a solid fact. Why do you call it a fiction? A. These merchants are coming to me all the time and telling me about conditions and how they fear this competition, not so much from the standpoint of price but because of the fact that these people are able to get by where the private merchant has to pay, and therefore they are handicapped. It is my opinion that it is a fiction that the business of these cooperatives does not give rise to profits. Of course, that is only my opinion but I believe it is also the opinion of most people in Canada. At least that is my suspicion.

Q. On page two you make an insinuation -- I don't say it is an unkind insinuation -- in the last paragraph. You say: "A private business man will profit by the thrift and stability which usually are important by-products of consumer cooperation. This is on the condition that such cooperatives are given no more privileges than he. It is also based on the assumption that consumer cooperatives will be a business and social movement, and not a political movement, and that

it will not attempt to create a cooperative monopoly." I want to know whether you are stating that this movement is developing into a political movement. That is what you insinuate. Do you want to withdraw it or did you mean it?

A. Well, I think I would like to withdraw it.

Q. Why did you put it there? A. I don't think it is necessary to have it in the brief. I overlooked it at the moment.

THE CHAIRMAN: Do you withdraw that statement?

THE WITNESS: Yes sir, the one about a political movement. Time will tell about that.

THE CHAIRMAN: Do you wish to withdraw the statement about a growing monopoly?

THE WITNESS: No. I would let that stand.

BY MR. ELLIOTT:

Q. On page three you say: "In talking, just the other day, with one of our substantial merchants from southern Saskatchewan, he stated to me that this matter of inequity in taxation was the most important matter before the independent merchant today, and that if the present inequity in taxation is not corrected and soon, -- that he, in self-preservation, will have to dispose of his stock while he has something to sell. He stated that he could not continue to pay income taxes and excess profits taxes and stay in business while his opposition, the cooperative store, paid neither income taxes nor excess profits taxes." I am interested in particular cases. What harm exactly was the tax exemption of the competitor doing to this merchant?

Precisely how did it hurt him? A. Well now, sir, at that time I said to this merchant, "You know, I think you should appear before this Commission, because it is men like you that they want to hear." I think that gentleman will likely

appear before you and tell you. Does that answer you?

Q. It would be more satisfactory to hear from him.

A. Well, he will be here and give you his story.

BY MR. MILLIKEN:

Q. In Alberta the Secretary of the Alberta Association said that they had 5,000 members and did not have all the merchants in that province. You tell us that there are 3,700 merchants in Saskatchewan. A. No, 10,000. Some of them must be very small. Our prospective list was 3,747.

Q. The number of men who might join the association is 3,700? A. Yes. I have not given you a copy of the brief, Mr. Milliken. I shall be glad to do so.

BY MR. ARNASON:

Q. At the bottom of page six you refer to the inequality in exemptions granted to certain organizations under certain conditions which are dealt with at the top of page seven. You suggest that these inequalities become apparent if the conditions outlined by you at the top of page seven grow, and the first example which you cite at the top of page seven reads: "When cooperative societies reach that eminence when they are no longer truly mutual concerns."

I was wondering whether you would care to explain a little more in detail what you mean by that. When you read this sentence the question that occurred to me was this: Would you suggest that if a cooperative were truly mutual, in that it did business with its members only, this question of tax exemption would not arise, that there would not be any problem of special exemption as referred to in the brief?

A. I think I was going back a long way, thinking of the time when, in a country school house near Prince Albert, they had meetings of the grange. Those people were truly mutual, trying to get somewhere to sell their cattle. They

were not thinking so much of buying. But this thing has gone on until it is a selling and buying concern and it has entered into business.

Q. Your point is that, as you see it, the problem emerges when these farm groups begin to engage in the purchasing of supplies. That is when they become trading concerns. Is that your point? A. Yes. No one took exception to them in those days when they were selling.

THE CHAIRMAN: Does that close the case?

THE WITNESS: I may say, Mr. Chairman, that I have one or two briefs which I have been asked to present on behalf of certain Boards of Trade and I have copies for each of you.

MR. PARKER: Have these been filed with the Registrar?

THE WITNESS: They are very brief.

THE CHAIRMAN: If you care to submit them they can be filed.

THE WITNESS: That is the best I can do. May I leave them with you?

THE CHAIRMAN: Other people who have complied with the conditions stipulated naturally wish to be heard, and gentlemen who come in at the very end cannot expect to be given precedence.

THE WITNESS: I don't know why it was thought that the Commission would be meeting in Saskatoon but the statement did appear in the papers that you would be in Saskatoon for a couple of days.

MR. PARKER: What paper was that in?

THE WITNESS: Maybe I had better not say that.

.....

Saskatchewan Employers' Association

MR. PARKER: We are ready to proceed with the brief submitted on behalf of the Saskatchewan Employers' Association. Mr. Moxon, K. C., is appearing on behalf of this Association and I presume he will present it in the same manner as Mr. Thompson presented his brief. He can either read it or comment on such portions of it as he thinks fit.

MR. MOXON: It is not very long.

THE CHAIRMAN: You are not producing any evidence?

MR. MOXON: No.

THE CHAIRMAN: Perhaps you would like to read it?

MR. MOXON: I may say in opening that this brief was compiled under somewhat the same circumstances as the brief filed by Mr. Thompson on behalf of the Regina Board of Trade. It was prepared by the executive of the Association, and of the members, only ten have seen it. I discussed the brief with ten of the fourteen members, the others being out of town.

THE CHAIRMAN: Directors of the Association?

MR. MOXON: Yes. We call them the executive council. These ten have seen it, but I wish to point out that it is just an argument; that is to say, it is not a factual brief in any sense, and I am afraid it is argument that you have already heard. In fact, I am sure it is, and I do not think it will be as well put as my learned friend Mr. Thompson's argument was. My excuse for coming before you is that you advertised for us.

THE CHAIRMAN: Possibly you might omit certain parts of it.

MR. MOXON: I thought that you might suggest that I omit it all.

THE CHAIRMAN: If you are satisfied that the brief is purely argumentative, you might do that.

MR. MOXON: There are one or two places in the brief in which facts are stated. I might read paragraph three:

"3. Some of the difficulties which our members are experiencing in considering plans for expansion may be put in this way. Many of our wholesalers would like to purchase or build branch houses or warehouses. The effect of the high corporate income tax rates combined with the imposts called for by the Excess Profits Tax Act of 1940, operating on a low standard of profits by reason of depressed business conditions in Saskatchewan in the period 1936 - 1939, has meant in practice that such firms have been able to retain after taxation on the average not more than 70 per cent of the comparatively low net income accruing to them in a period of depressed business conditions. Out of this income remaining to them they must provide for any reserves, except depreciation and bad debts, which they have been accustomed to maintain or now deem prudent in the unusual conditions prevailing, and then pay dividends to their shareholders. One company in wholesale business found itself liable to pay in 1943 for income tax and excess profits tax \$32,000 out of a net profit of some \$36,000. It is true that 20 per cent of the excess profits tax is to be refunded in successive years after the cessation of hostilities between Canada and Germany, Italy and Japan, but the date of cessation as proclaimed by the Governor-in-Council will in all probability fall some time after protracted peace negotiations, so that these amounts must be regarded as deferred assets."

This is factual and is entirely within my own knowledge, and in any case it is only an illustration.

THE CHAIRMAN: If you are satisfied to submit the brief without reading it we will certainly read it.

MR. PARKER: I would suggest that Mr. Moxon might treat the brief for a few minutes as a factum and if there are any points to which he wishes to call special attention he might indicate them.

MR. MOXON: We gave a good deal of anxious thought to this when it was discussed and it was discussed at three meetings. We carefully considered the question of what we should recommend, not that we thought that our recommendations had greater weight than those of other groups, but we felt that if we were to be of any use to you, then the opinions of a business body of ten men concerning the problem with which you are faced might be of some assistance. We went extensively into the English system. So far as the brief itself is concerned, when we were wording it the secretary and I endeavoured to avoid suggesting to you that the British system could be followed in its entirety. After all, Britain is one country and Canada is another, and the taxing problems facing the Minister of Finance in Canada are by no means the same as those with which the Chancellor of the Exchequer has to deal in Britain.

Speaking for myself, I assumed that no returns had been made by a great many of the cooperative associations that are simply in the trading business in Saskatchewan. In fact, I know they are not being made because they have told me. They have not been asked to make returns. Section 4 (p) gives a list of what might be called primary producers, where it speaks for the income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like companies and associations. The question seemed to me to turn on the word "like". There are a number

of people working on the income tax problem for the Government. I have talked to some of them and their idea was that it was based on the word like; that is to say, although the Government gives a list of these people -- farmers, dairymen, livestockmen and so on, and other "like" cooperative companies -- the legal interpretation of that is that if the cooperative is set up as a like organization it does not matter what its membership is. It does not matter whether its membership is made up of primary producers or pure consumers in an urban area because the organization is "like". It is a like organization, and that to my mind is one of the difficulties in the present situation. The words are fairly capable of that interpretation, that any organization set up like these other organizations -- like in organization but not in membership -- is to be so treated; and our suggestion in the brief, the main suggestion, is that there should be no exemption from taxation merely because of the form of organization.

We are not dealing with the question whether it is proper or not; but to my mind the word like is important. Something should be done if for no other reason than to clarify that point. It is not a legal decision or a legal principle; otherwise you could not explain why certain trading concerns have not been asked to put in returns. The people administering the income tax are efficient and honourable and they try to get the tax. They are charged with the duty of getting it and if they followed the interpretation of that section which they would be justified in adopting, they would have sent demands to these people to make returns.

That is my view of the question. It was not the intention to favour anyone. They are concerned with "like" organizations and they get lists of these organizations that

are registered under our Co-operative Marketing Act and the other act, and they do not bother sending demands to these people because they simply say they are "like" organizations.

THE CHAIRMAN: That is a pure question of interpretation.

MR. MOXON: Yes. The difficulty in our part of the country has been the question, what is the proper interpretation of the section. As a lawyer, I think it is open to the interpretation that these organizations are like those enumerated. Taxing statutes are construed fairly strictly and if there is a fair argument that an organization is a like organization in its form -- not in its membership but in its form -- as the statute stands it is entitled to the exemption.

I have tried to develop that in paragraph nine, where I begin with the statement that the generally accepted view seems to be as I have stated. I ask you to take my word for it that that is the accepted view. I quote from that paragraph: "If it is a 'like' company or association in its organization, regardless of the fact that its members may be urban dwellers, retail cooperative associations, or gasoline service station operators, for instance, is entitled to the exemptions provided in this subsection. The exemption from taxation has extended to all the surplus earned and retained by cooperatives regardless of membership or of the nature or kind of activity in which they are engaged. In our opinion, the exemption of cooperatives as such is unfair and discriminatory. The income of no commercial enterprise should be exempt from tax. There should be no 'special privilege' so far as taxation is concerned based on the type or method of organization."

Once it was established that certain concerns were co-

operative, as far as we can tell no attempt was made to have them make returns, whether on investment income or on any other income. Suppose they had invested reserves in Dominion of Canada bonds; they were not asked to make returns on that.

Our submission is that the income of a commercial concern should not be exempt from taxation. I do not mean that there should not be certain deductions but the income should come before the tax assessor. We say in the brief: "It is a truism that where there is an equal sharing of the load, that load is borne willingly and there is a spirit of cooperation with the tax collector which alone in a democracy can bring the best results."

There has been some resentment, and as a matter of fact representations were made by the Employers' Association to the Minister of Finance.

In paragraph twelve we say: "We do not intend to enlarge upon the situation which has developed in Britain following upon changes in the Finance Act introduced in 1933 after the report of the committee set up by the Chancellor of the Exchequer in 1932 to report upon the taxation of co-operatives. Conditions there are different from conditions in Canada. There is in Britain no 'double taxation' so far as the income of joint stock companies distributed to shareholders is concerned. Under our Income War Tax Act there is a personal tax on the shareholder as to the portion of income he receives, unless indeed, his entire income is so low as to entitle him to exemption from tax, and there is also a corporate tax on the income of the joint stock company as such."

I am tired of being told that because Ontario does something in a certain way we should follow suit, and I do not take it any better when somebody tells me that something

is done in this way or that way in England and proposes therefore that we should do the same here. Saskatchewan as a province has its own problems and Canada as a Dominion has its problems to work out, and I think we have enough intelligence and common sense to cope with these problems ourselves.

THE CHAIRMAN: We are inclined to agree with you.

MR. MOXON: In paragraph twelve I go on to say: "In Britain the tax is essentially a personal tax. The corporation or joint stock company pays in effect only the tax on that part of its net income which it retains, presumably because it is retained for the benefit of the shareholders." War time has made a difference there, but their main structure is based upon income tax. To continue: "The British solution may not be applicable here in its entirety without a radical change in the Canadian Act and the whole policy of taxing incorporated bodies. Though we favour the British plan of what may be called a single tax on personal income, we realize that the financial needs of the Government may be so great at the present time and for some time in the future, that its adoption by the Minister of Finance may be deemed impracticable."

The opinion I have canvassed in eastern Canada is to that effect. Continuing:

"Nevertheless, it is significant that in effect, in Britain, cooperatives are treated exactly as limited liability companies trading in similar circumstances and under similar conditions. There is no exemption by reason only of the form of organization."

I mention one case in paragraph fourteen. I say: "The report of the Saskatchewan Co-operative Producers Limited

for the year 1944 states that the Co-operative Union of Canada presented a memorandum on July 12, 1944, to the Government of Canada in which amongst other matters it was stated that in the opinion of the delegation it was manifestly the intention of the Government when the exemption now contained in subsection (p) of section (4) of the Income War Tax Act first appeared to exempt all cooperatives from liability." They say it is manifest; I am using their words. I do not know why anything is particularly manifest in law, but that is the word they use. They say it was the intention to do that. They did not need to go through the whole list of farmers, dairymen, livestockmen, fruit growers, poultrymen and fishermen. One sentence would have sufficed, in the same way as in connection with prospecting syndicates. If a cooperative is registered under a provincial or Dominion Act it shall be entitled to exemption; that would have been the easy way of saying it. Continuing:

"If such were the intention the exemption could have been very simply stated. There would be no need of a reference to marketing organizations of primary producers, or to the purchasing of supplies for such producers. One line would have brought about the desired result. But whatever was the intention of the Government (or Parliament, since the Government does not enact, it merely proposes) the arguments and reasons that were found valid then, or allowed to prevail, are no longer valid for reasons already mentioned."

That is to say, things have changed since that time. Continuing:

"No form of organization of a trading entity should in itself be a ground for special treatment or privilege before the law. All our trading organizations are in the last resort merely means of assembling facilities for serving

those who constitute the state."

It is just means of getting together. Continuing:

"Capital they must have, whether it is raised by share subscription or by membership fees or by revolving funds, as cooperatives sometimes call profits or surplus retained by them to be paid out in future after being replaced by like sums. The method used in raising or accumulating this trading capital is or should be immaterial to the state. No one form or organization, that is, of making available trading facilities or capital to serve the public should be fostered by taxation. Taxation is primarily designed to supply the needs of the State. It may well be that in a secondary sense it does serve the purpose of distributing to some degree the social income, but that is not because those who have not are entitled to live upon the efforts of those who have. It is because in the interest of the State as a whole the devastating effects of poverty must be alleviated."

That is the old Liberal and Conservative view.

Continuing:

"No one has suggested that taxation should be used to drive private enterprise out of the business field, but that will be the end result if the present heavy burden of taxation is borne solely by private enterprise."

I might read section sixteen: "The action of the Western Wheat Pools in reducing handling charges on grain for the 1944-45 crop year to a point well below the cost of the service is an instance of the unfair situation in the grain trade arising, we submit, directly from the exemption from income taxation that the Pools have enjoyed. The line elevator companies must meet these reductions or lose the place they have held for so long in grain handling in the west."

I am stating it as a fact. I am not admitting it.
Continuing:

"If the line elevator companies cannot meet the situation, the result will be a monopoly in grain handling in the West. Such a result would, in our opinion, not be desired by many members of the Pools, and certainly not by the wider public; it would be an unhealthy situation for the Pools, and if exemption from taxation for the Pools continues-- and it will be only because this exemption does continue that there will be a Pool monopoly -- then there will be a very considerable loss of revenue to the State.

"These elevator companies and others faced with their problem in other lines of business will endeavour to meet this competition. They will reorganize so as to become co-operatives or provide for paying rebates or patronage dividends to customers by contract, and so reduce the price of the goods or service they sell."

It may be quite beneficial to the public; I am not arguing that. Continuing:

"By some means they will arrange so that a considerable part of their trading surplus is not available for taxation. Such plans are already under consideration in Canada and have been put under way in the United States of America."

I mention that because we had one example before us in the report of a company that turned itself into a cooperative. It is only an illustration. Continuing:

"Private enterprise, as represented by our members, believes that it has a useful and important part to play in the economy of Saskatchewan. It believes that it can survive and increase its usefulness provided it competes on equal terms with cooperatives so far as taxation is concerned. It believes that efficiency is best secured where both forms

of organization are free to compete. Our members believe that efficiency reduces costs and that efficiency in business is most likely to be attained where those who venture have the assurance that if they are prudent, energetic and far-seeing, in other words, if they manage well, they will have a return commensurate with their efforts. They believe also that only where there is competition of a legitimate nature with private enterprise will the cooperatives reach their highest development. Competition is in the blood and traditions of the race."

MR. PARKER: What race, though?

MR. MOXON: We are all one race, Canadians.

Continuing:

"There may some day be a new order where competition will not be needed as a spur and where gain as the result of effort will be a thing of the past. But traditions and attitudes change slowly, human nature never. Private enterprise is entitled to its chance to survive and to serve on equal terms, and this can only be secured by seeing that co-operatives and private enterprise are made equal before the taxing officer."

Next we come to the recommendations, which we submit with great respect and humility.

"We venture to submit the following general principles which in our opinion should be given consideration in recommending changes in the application and/or administration of the Income War Tax and Excess Profits Tax laws in relation to cooperatives:

"(a) No general or over-all exemption of the income of cooperatives engaged in trade or industry should be given by law.

"(b) There should be no deduction allowed for interest paid on share capital of cooperatives, or on the amount standing to members' credit by way of reserve funds from untaxed profits or surplus on operations of earlier years, whether on the 'revolving door' plan, or at the discretion of directors as to the time of repayment."

That is just an opinion; I do not know that it is entitled to more respect than the people who make it.

Continuing:

"(c) No deduction should be allowed for interest paid on loan capital, even if there is an agreement or regulation providing for the payment of interest, unless there has been an actual loan or advance made by the member or shareholder. If such loan capital is retained from surplus, it is in effect a subscription or instalment on account of capital made by members."

That is different from the other. In some cases of co-operatives I have known, they have been assisted by members by actual loans, and that is an ordinary deductible expense. That is under our set-up. I do not know how long that will continue. Continuing:

"(d) If there is to be special treatment for cooperatives in respect to patronage dividends, then only the distributions to members and patrons on the basis of the goods or services handled or supplied and paid in cash within the tax year or a limited period after the close of the tax year should be allowed as deductions. All other income of such marketing organizations should be brought into tax. Other trading concerns which agree to pay and do pay patronage allowances to customers should have these as deductions on like conditions."

This is something that we stress, and it is a very difficult question. I am alluding to the argument that under section 498 we cannot do that. I have some doubts about whether that is what the section means. Continuing:

"(e) That the exemption given to the income of Credit Unions by subsection (q) of section (4) of the Income War Tax Act be limited to such part of the annual income as is paid to borrowers on the basis of the amount borrowed by them and paid within the tax year or within a limited period thereafter."

I take that as coming under 4 (q), although I do not know that it is a banking institution. The province really cannot incorporate a banking institution, but I do not know of anything else that 4 (q) could mean. It must mean credit unions. Income as a whole is exempt regardless of reserves built up and investments they may have. Part of the trouble came from putting income as a whole into the exempt class instead of providing for deductions. It is like saying that the Governor General's salary is so and so. You start with the income of these people and it does not matter where the income comes from. It seemed to us to be indefensible from that point of view.

MR. FRANCIS: With reference to paragraph fourteen, where you say "it was stated that in the opinion of the delegation it was manifestly the intention of the Government" and so on, the intention there was inferred not from the statute but from Hansard, at page 2504 of that particular session, wherein the Honourable Mr. Dunning is reported as having said that bona fide cooperative organizations should be exempt from the provisions of the Income Tax Act. That is what the delegation had in mind, and not that 4 (p) made it abundantly clear.

MR. PARKER: In the third paragraph on page one this statement appears: "The effect of the high corporate income tax rates combined with the imposts called for by the Excess Profits Tax Act of 1940, operating on a low standard of profits by reason of depressed business conditions in Saskatchewan in the period 1936-39, has meant in practice that such firms have been able to retain after taxation on the average not more than 70 per cent of the comparatively low net income accruing to them in a period of depressed business conditions."

Is not that taken into consideration in fixing standard profits?

MR. MOXON: Yes; but many of these people have not got the technical advice necessary. Some are fairly small. That is what happens in the illustration I have given, where he had a minimum standard of \$5,000.

MR. PARKER: He took it for granted that the standard period would apply to him?

MR. MOXON: Yes.

MR. PARKER: That is his own fault.

MR. MOXON: If your income is not very large you are apt to suffer the ills you have rather than fly to others you know not of. This man got to the point where he could not pay off the bank loan he was using to finance his business and I said, "You had better throw yourself into the hands of the lawyers and accountants." Many of them are doing business on lower standards than they should because it is a big job.

MR. ARNASON: In the last paragraph on page nine there appears the first reference made to the argument that the income of credit unions should be taxed. I was wondering

whether you had special reasons in mind other than the one you suggest.

MR. MOXON: This had not been developed very well by the people with whom we discussed it. My only point is that I do not think that any income as such should come into one of these brackets. If the Government wants to do these things as a matter of policy, let them provide for certain deductions and deal with the question by regulation or something of that kind. But to grant wholesale exemptions immediately causes resentment and trouble. That is my only point in mentioning credit unions.

THE CHAIRMAN: That concludes your case?

MR. MOXON: Yes, my Lord; thank you.

The Commission adjourned until 2.15 p. m.

.....

The Commission resumed at 2.15 p. m.

MR. PARKER: I propose to take up this afternoon the brief filed by the Saskatchewan Federated Co-operatives Limited, which is No. 4. It is being introduced by Mr. Francis.

MR. FRANCIS: Just before calling the witnesses, I wish to make a brief statement with regard to the cooperative briefs, so far as the consumers and the credit union movements are concerned. I am not representing the producer cooperatives. There are fourteen briefs that will be presented, some of which are quite short, and we have done everything possible to eliminate duplication.

THE CHAIRMAN: Fourteen with this one?

MR. FRANCIS: Thirteen in addition to this. The first one gives an over-all picture of the consumer's movement in

this province and there are eight supplementary briefs which will show exactly how the cooperative principles operate in local communities.

In addition, there will be four credit union briefs.

This sounds a bit formidable, my Lord, but some of the briefs, as I say, are very short and they are arranged in such a way that they can be put before the Commission very quickly.

The cooperative union of Saskatchewan, which is really the provincial section of the Co-operative Union of Canada, of which Mr. Good is president, is very much interested in these proceedings. I hold a watching brief for that organization, but no formal submission is being made.

THE CHAIRMAN: I understand that Mr. Good's brief is being presented in Ottawa.

MR. FRANCIS: Yes. That is for the national organization. We have a large organization in Saskatchewan, however, but no formal brief is being presented by it though, as I say, I hold a watching brief for it.

Before calling the manager, I would like to clear up one point with regard to the brief I am about to present. For that purpose I desire to call as a witness an officer of the Wartime Prices and Trade Board. I wish to ask her one or two questions.

MRS. MAY W. NEAL,

Wartime Prices and Trade Board,
having been duly sworn testified
as follows:

BY MR. FRANCIS:

Q. You reside in Regina, Saskatchewan? A. Yes.

Q. And you are an officer of the Wartime Prices and Trade Board? A. Yes.

Q. How long have you been employed by the Board?

A. Since April, 1943.

Q. Is it a part of your duties to keep any records?

A. Oh yes.

Q. What is the nature of that duty? A. Among other things, I am licensing officer.

Q. What is your work in that connection? A. My work in that connection would be covered by what we call board orders 202 and 284, which were amended by board order 400. They pertain to the licensing of businesses, change in ownership of businesses, and expansion of present-day established businesses.

Q. Would the transfer of businesses from private owners to cooperatives be reported to your board?

A. Yes.

Q. Are all the reports for the province of Saskatchewan sent to your office? A. Yes, they are.

Q. And you have full records? A. We are a regional office and we clear for the eight local offices.

Q. I believe there are twenty-eight districts in the province? A. Yes.

Q. And you clear for the whole province? A. Yes.

Q. Were you in charge of that work in 1944?

A. Yes, I was.

Q. For the whole of 1944? A. Yes.

Q. I would like to refer you to a statement with which the Commission has been confronted on more than one occasion. I refer you to page 30 of the brief presented on behalf of the Retail Merchants of Alberta -- and it has come up later. The statement is made: "As indicative of what is in store both for the retail merchant and for the

federal revenues, attention is directed to the records of the Wartime Prices and Trade Board, which disclose that during the first six months of 1944, 171 retail stores in Saskatchewan were converted from taxpaying private ownership companies into non-tax cooperative associations." Did your office furnish that information? A. We have no record that we ever furnished it.

Q. Do you know whether or not Ottawa headquarters furnished it? A. I have no information to the effect that they did furnish it.

Q. Information of this kind is released through you; you are in charge of it? A. Yes.

Q. And you have no knowledge of such information being released? A. No.

Q. Is the information that 171 retail stores in Saskatchewan were converted from taxpaying companies into non-tax cooperative associations during the first six months of 1944 correct? A. As indicated by the records in our office, it is not correct.

Q. Do you think those records are correct? A. Yes.

Q. Is there a legal obligation on persons selling such businesses to record the transfer with you? Do you use the term "transfer"? A. Change of ownership is the term we use.

Q. Is there a legal obligation under 284?

MR. PARKER: Don't ask questions of law.

BY MR. FRANCIS:

Q. You are satisfied that your records give a true picture of what happens? A. Yes.

Q. What are the facts, from your records, as to the number of retail stores that changed from private ownership to cooperative enterprises? A. In 1944?

Q. Yes. A. The records in our office indicate that the number of privately owned retail businesses that changed ownership to cooperative during the full year of 1944 is 59.

Q. That is for the full year. Can you tell the Commission how many conversions or changes of ownership there were in the first six months? A. I haven't that information.

Q. You have no breakdown? A. No, no breakdown into months.

Q. Have you personally seen any statement in the press to the effect that there were 171? A. Yes. I saw it in the Leader Post.

Q. Did you question it at the time? A. I wondered about it because I know how many go through the office.

Q. Did you see the statement made in any other publications, in any pamphlets? A. I have heard it talked about but I cannot be definite.

BY MR. PARKER:

Q. Your records show 59 changes of ownership from non-cooperatives to cooperatives? A. From privately-owned to cooperatives.

Q. How do you distinguish? A. They don't use the words "privately owned" correctly. Very often it is an individual merchant; that would be one person. It might be a partnership.

Q. That is, the original owner? A. Yes. The name of the original owner would not have "cooperative" in it. The name of the one taking over would have "cooperative association limited."

Q. And it is on that basis -- that the name "cooperative" appears on your record -- that you say the change of owner-

ship was from non-cooperative to cooperative? A. Yes.

Q. That is a fair way to put it? A. Yes.

Q. During the same period, have you the number of changes of ownership from an existing non-cooperative to another non-cooperative? A. No; I haven't got that.

Q. Your records would show that? A. Existing non-cooperatives?

Q. I mean transfers where the parties on both sides were non-cooperatives. A. We have not estimated it or counted it.

Q. You were asked particularly to get the other information before you came here. A. We have been talking about it in the office and it came out in the Leader Post, and we counted it up.

Q. Without attempting to give the exact number, have you an approximate idea how many there would be, which you could check later? A. I am afraid I could not give that.

Q. Would there be a considerable number? A. What I might regard as a considerable number you might not, and vice versa.

Q. Well, were there some? We can agree on that, can we? A. Oh yes.

Q. At least fifty? A. I would rather not commit myself.

Q. Why? A. Because I don't know; I am not prepared to answer.

Q. Would it be a big job to check that up? A. It can be done.

Q. How long would it take? A. My chief filing clerk under me is ill, but it could be done within a day or two.

Q. Before Friday or Saturday? A. It could be done by that time.

Q. Will you send a note to the Registrar or to myself?

A. I would be glad to do that.

BY MR. VAUGHAN:

Q. Have you ever known of any cooperative that changed into a regular corporation or a business under private ownership? A. I think there was one but it isn't anything I could be sure about. It certainly is very rare.

Q. Why is there not a change in that direction as well as in the other? A. Oh, I don't know, sir.

MR. FRANCIS: I would like at this time to make a formal application to the Commission, and first of all I would state very briefly the basis of it. When the co-operatives which I represent were confronted with this statement, so widely circulated, they naturally initiated an investigation.

MR. PARKER: The statement which the witness has just dealt with?

MR. FRANCIS: About the 171, yes. Naturally they commenced an investigation and it has proceeded thus far. We have a list of retail stores that were transferred from private ownership to cooperative ownership, and we are in the process of obtaining the amount of income tax paid by the managers of the new cooperative stores or converted stores. We are gathering that, but it is not yet complete. A third point that we have been trying to investigate, and which we think is relevant in view of what we have had to face, is the amount of income tax paid by the private businesses that sold to the cooperatives, so that we can make a comparison between that and what the managers of the cooperatives have paid in income tax. As far as we have been able to go, it appears -- I can only say this now --

that there has been a gain in revenue because of the salaries paid to the new managers, and we have a number of instances where there was loss before whereas now the manager pays income tax.

I would respectfully request, in view of the wide publicity that has been given this statement, and the arguments that have been based upon it, that the Commission obtain privately, through the proper officers of the Revenue Department, the amount of income tax paid during recent years by the private owners who sold their businesses to cooperatives. That is something that we cannot get.

THE CHAIRMAN: It is something that we cannot ask for publicly.

MR. FRANCIS: I said privately, my Lord.

THE CHAIRMAN: It would have to come through Ottawa. Are you proposing to furnish us with a list of names, Mr. Francis?

MR. FRANCIS: Yes, we have that prepared. We will furnish you with a list of the names -- fifty-nine or whatever it is -- and also with a statement of the income tax paid by the managers of these new businesses, and on the basis of that list we request very respectfully that, through Ottawa, the income tax paid by businesses before they were converted be furnished privately to the Commission.

THE CHAIRMAN: That can be asked for here, and the local collector will deal with Ottawa and we can be given the information, possibly, without disclosing names.

MR. FRANCIS: That is perfectly all right. The reason for the application, Mr. Chairman, is this. Although my argument is reserved for Ottawa, so far as the provinces I represent are concerned, a great many of the arguments brought forward are based on the fact that there is resentment

and undermining of confidence.

Our submission is that this resentment and undermining of confidence is due, not to the cooperative situation, but to the fact that false statements have been circulated through the press, and that has brought about a great deal of ill feeling. Statements of the kind that I am now bringing to your attention, Mr. Chairman, are having a harmful effect. As regards the statement about the hundred million, we have shaken that; but the fact remains that the circulation of such statements is widespread. It is that sort of thing that is causing resentment and if such statements are untrue, then all arguments based upon them tend to be weakened.

THE CHAIRMAN: I would suggest that you put your application in writing to the Registrar so that he may transmit it to the local collector, who will furnish the information to Ottawa and Ottawa will send it to us through such channels as they see fit.

MR. THORVALDSON: I presume my learned friend is referring to statements made by me. If so, I might say a word or two about them.

THE CHAIRMAN: We are dealing at the moment with the statement that 171 retail stores in Saskatchewan have been converted to cooperatives.

MR. THORVALDSON: I am sorry, Mr. Chairman, I came in late and I just caught the tail-end of Mr. Francis' remarks.

THE CHAIRMAN: That chip will remain on your shoulder, Mr. Thorvaldson.

MR. THORVALDSON: I am prepared to discuss with the Commission any statements I have made at any time. My learned friend in Edmonton spoke of wild statements. If at any time he has reference to me I am willing to come before

the Commission and prove that what I have said is certainly not wild. If any statement I have made is incorrect it is at least based on information which I had very good reason to accept. It is not based on mere supposition.

THE CHAIRMAN: I am sure Mr. Francis will give you every opportunity.

MR. FRANCIS: I did not use the word "wild"; I said reckless.

THE CHAIRMAN: That may be as difficult to define as cooperative.

ROBERT McKAY,

General Manager,
Saskatchewan Federated Co-operatives,
Limited,
having been duly sworn testified
as follows:

BY MR. FRANCIS:

Q. Just before the brief is presented I wish to ask you one or two questions. I understand that you came to Canada in 1911? A. Yes.

Q. And from 1911 you were farming in the Melfort area in north-eastern Saskatchewan? A. Yes.

Q. And for the next twelve years you were manager of the Melfort Co-operative? A. The Melfort Grain Growers Co-operative Association.

Q. That was one of the associations organized under the cooperative legislation of the province? A. Yes.

Q. That was until 1931? A. Yes.

Q. And in 1931 you became manager of what was then the Saskatchewan Co-operative Wholesale Society Limited?

A. Yes.

Q. And you have been manager until 1944? A. Yes.

Q. When you started you had three employees and you now have approximately four hundred? A. Yes.

Q. In 1944 your position was changed from manager to general manager. There are many departmental managers?

A. Yes.

Q. With regard to the preparation of this brief, will you tell the Commission the exact circumstances under which it was prepared and what authority you have to speak on behalf of your association. A. In order to keep the records clear, may I make this brief statement in explanation of what lay behind the preparation of the brief.

The Federation is nominally owned by the 441 cooperative associations that are shareholders of the Federation, and actually it is owned by 60,000 or more individuals who comprise the membership of these 441 cooperative associations.

Had time permitted, the proper procedure would have been to submit to the member associations proposed submissions or synopses thereof; and they in turn, dealing with the matter at their annual meetings, would have made such suggestions as they saw fit for additions, deletions or corrections.

This was obviously impractical and the responsibility therefore devolved upon the sixteen directors of the Federation. The general idea of the submission to be made was arrived at at the December meeting of the Board of the Federation and a committee was appointed and given the responsibility of preparing submissions. This committee consisted of the president of the Federation, Mr. Urwin, the solicitor, Mr. W. B. Francis and myself.

Mr. Urwin, Mr. Francis and I completed the brief in accordance with our instructions, and copies of the submission were then sent to each of the sixteen directors by mail for their information and comment. It being impossible for various reasons to hold the regular January board meeting, a

special meeting of the executive of the Federation, comprised of five directors, was called on January 16 for the purpose of considering the submission.

At this meeting minor changes were suggested and the submission unanimously approved, and the other directors gave their approval by mail.

It will be realized that, by the nature of the organizational set-up of the Federation, the recommendations contained in the submissions to be presented, while being the considered opinion of the Board of the Federation and, in its information, in accord with the views of the majority of the membership, cannot of necessity be construed as reflecting the unanimous opinion of the members. For the information of the Commission I will give the names of the committee. They are: Mr. George Urwin, who has his head office in Saskatoon; Mr. McD. Rankin, Grand Coulee; Mr. V. C. Thomas, Milestone; Mr. James F. Gray, Naseby; and Mr. L. J. Bright, Bulyea, these gentlemen are all farmers.

MR. FRANCIS: There were two sources that were not available when the brief was prepared. On page one, in lines seven and eight, the brief speaks of "statutes of Saskatchewan 1944 (second session)." The new Act had just been passed and we did not have the number of the chapter. That should be chapter 75 of the second session of the meeting of the legislature in 1944. That changes the name from "Saskatchewan Co-operative Wholesale Society Limited" to "Saskatchewan Federated Co-operatives Limited."

On page twenty-three there appears an excerpt from the report of the Royal Commission on Price Spreads, beginning with the words: "It is our opinion that further development

of consumers' cooperatives in Canada would be a general benefit" and so on. The source of that is section 5 of chapter 7 of the report of the Price Spreads Commission, page 219. I think you should have those sources, Mr. Chairman. All right, Mr. McKay. Will you please read the brief.

THE WITNESS: (Reading)

"Saskatchewan Federated Co-operatives Limited,
Saskatoon, Saskatchewan

Submissions to the Royal Commission on Co-operatives

"These submissions are made on behalf of Saskatchewan Federated Co-operatives Limited, referred to hereafter as the Federation, a cooperative society deriving its wide powers from a special Act of the Legislature of Saskatchewan by which its incorporation was confirmed (Statutes of Saskatchewan 1928-29, Chapter 85) as amended by Statutes of Saskatchewan 1939, Chapter 98, Statutes of Saskatchewan 1944, Chapter 105 and Statutes of Saskatchewan 1944 (Second Session). By the last amendment the name of the Federation was changed from Saskatchewan Co-operative Wholesale Society Limited to Saskatchewan Federated Co-operatives Limited.

"This Federation's membership is limited to other incorporated cooperative associations and was established and is operated to supply the needs of its member associations by financing their joint operations.

"In brief, a review of the background to the establishment of the Federation is as follows:

"As the first cooperative legislation, which is the basis of cooperative development in Saskatchewan, a special Act in 1908 incorporated the Saskatchewan Grain Growers Association. During the years that followed, due to some extent to the assistance of the Grain Growers Association, groups of farmers throughout the province took steps to

establish cooperative associations. In 1913 The Agricultural Co-operative Associations Act was passed to enable these groups to become incorporated, and in the same year the Grain Growers Association obtained an amendment (Statutes of Saskatchewan 1913, Chapter 54) authorizing it to 'act as agent for the purchase or sale of farm produce or supplies on behalf of any association organized under the Agricultural Co-operative Associations Act.'

"After the new legislation was passed, five or more farmers could associate together as an incorporated association with limited liability. The Act provided that each shareholder would have the one vote regardless of the number of shares held and that after paying interest on the paid up capital at a rate not to exceed 6 per cent, and setting aside a percentage as a reserve, the surplus was to be divided among the patrons in proportion to the business which each had transacted. In short, the Rochdale principles were incorporated into the Act.

"In the years that followed hundreds of associations were incorporated and the wholesale business carried on by the Saskatchewan Grain Growers Association was expanded. The Grain Growers Association had been formed originally 'to further the interests of the grain growers of Saskatchewan in every honourable and legitimate way.' Trading was only one of its activities. The trading department was not wholly owned and controlled by the associations with which it did business and this did not prove satisfactory. A group of 29 local associations which survived the reverses of the early 1920's decided in 1928 to establish a cooperative wholesale owned and controlled by them, and the business of the old Trading Department was acquired by this new

organization. As far as possible the Rochdale principles were incorporated into the Charter of the new Co-operative Wholesale Society, now known as Saskatchewan Federated Co-operatives Limited.

"These submissions will be directed to the three main matters into which the Commission has been asked to enquire in the order in which they are set forth in the terms of reference.

"(a) THE PRESENT POSITION OF THE FEDERATION IN THE MATTER OF THE APPLICATION THERETO OF THE INCOME WAR TAX ACT AND THE EXCESS PROFITS TAX ACT 1940.

"The Federation had been in operation only a short time when the Government of Canada in 1930 declared its policy with respect to the taxation of cooperatives. The Minister of Finance stated as follows when the enactment of Section 4 (p) of the present Income War Tax Act was under discussion: 'The intention is that bona fide cooperative organizations shall be exempt from the provisions of the Income Tax Act.' (Hansard 1930 p.2504). It was further stated that the exemption would include cooperative stores run on the Rochdale plan.

"It has always been assumed that the member associations of the Federation were exempt under the first part of Section 4 (p) as long as their non-member business did not exceed 20 per cent of the member business.

"As the Federation was formed for the purpose of strengthening the financial position of the local associations through pooling their purchasing power, it has also been assumed that the Federation was exempt under the last provision of Section 4(p) which reads: 'This exemption shall extend to companies and associations owned or controlled by such cooperative companies and associations and organized

for the purpose of financing their operations.'

"In recent years, as the Order in Council P.C.8725 recites, the effect of Section 4 (p) has caused a considerable measure of uncertainty in the business of some cooperative organizations. Conflicting views have been expressed as to the meaning of certain terms and phrases in Section 4 (p) including 'like cooperatives', 'on a co-operative basis', 'under an obligation to pay', 'necessary expenses and reserves' and 'financing'. In view, however, of the clearly expressed policy of the government and the practice followed by income tax officials with respect to cooperatives, the Federation assumed that it was exempt. As it appeared in 1940 that many points were controversial, the Federation together with other federations of cooperative associations submitted to the Commissioner of Income Tax a number of questions in order to ascertain the exact legal position. One of these questions was: 'Does a co-operative association, incorporated under provincial law, lose its status as a cooperative under Section 4 (p) of the Income War Tax Act if it pays interest on the paid up portion of shares held by members?' In due course the answer was given to the effect that the cooperatives by paying interest would lose its status. Immediately, the Federation, although not agreeing with the ruling, not only discontinued the practice of paying interest on the paid up share capital of its members but it recommended to its member associations that they also discontinue the practice in order to conform to the provisions of Section 4 (p) as interpreted by the Income Tax Commissioner. The recommendation was in general followed by the member associations.

"The Federation has never been assessed for income tax.

"The Federation has, when in doubt, endeavoured to ascertain its position and at all times to meet the requirements of Section 4 (p). The Federation operates within the spirit of 4 (p) and if not strictly within the letter of the clause, it is because the clause is not clear and not in conformity with the intention of Parliament at the time it was enacted.

"(b) THE ORGANIZATION AND BUSINESS METHODS AND THE OPERATIONS OF SASKATCHEWAN FEDERATED CO-OPERATIVES LIMITED AND RELEVANT MATTERS.

"A. Organization.

"This may be dealt with under two headings:

- (1) Local cooperative associations.
- (2) Association cooperatives and subsidiaries.

.....

"1. The Federation is owned and controlled by co-operative associations either incorporated under The Co-operative Associations Act (Cap. 179 R.S.S. 1940) as amended or the Acts which it replaced. To fully understand the purpose and structure of the Federation it is necessary to examine briefly the purpose and structure of the member associations, one of which is hereafter referred to as the association.

"Any five or more persons who desire to associate themselves together as a cooperative, for the purpose of establishing and operating a cooperative business or enterprise, may apply for incorporation the granting of which is in the discretion of the registrar. If the request is reasonable, considering the objects, the interest in the venture and the absence of a similar cooperative in the same district, the application for incorporation is usually granted. The

association may be incorporated with or without share capital. The association is granted wide ancillary powers in addition to its main objects which usually include rendering services of a pecuniary value to its members.

"One of its ancillary powers is to hold shares in any association, society or company established under Saskatchewan law having similar objects to a cooperative association, and with the written approval of the registrar of cooperative associations, it may hold shares in a Dominion company with similar objects. It is because of this power that an association may acquire shares in the Federation.

"Contrary to the general rules of law, an association has power to buy its own shares and a member, at meetings, has one vote only regardless of the number of shares held by him.

"Perhaps the most important provision applicable to associations is the following:

"1. The directors, after paying expenses and making proper allowances for depreciation, shall apportion the surplus arising from the yearly business of the association as follows:

"(a) by setting aside not less than ten per cent of the surplus for a reserve fund and so from year to year until the reserve fund is equal to at least ten per cent of the total assets of the association as shown in its audited financial statement for the fiscal year;

"(b) in the case of an association having capital, if the supplemental bylaws so provide, by paying interest on the paid up capital only, at a rate not exceeding six per cent, per annum;

"(c) by setting aside not more than ten per cent of the surplus as an educational or community fund.

"2. The remainder of the surplus shall, subject to the provisions of the bylaws, be divided among the members and patrons in proportion to the volume of business which they have done with the association.

"With reference to Clause (b), as pointed out earlier, the great majority of associations do not now pay interest on share capital.

"In subsection (2) the words 'subject to the provisions of the bylaws' require comment. An association is given great latitude in regard to bylaws. Under the Act an association may pass supplemental bylaws, inter alia, providing --

that, before the distribution or application of dividends due to a patron or member, there may be retained a portion of the net surplus not to exceed 15 per cent for any service or services to be supplied by the association or for fees, grants, assessments or other payments to be made to any company, association or society of a cooperative or mutual character supplying any service or services, provided that full particulars thereof shall be set forth in the supplemental bylaws;

that all dividends or any portion of the dividends due to members may be retained for and used for any purpose of the association, and that dividends retained may be paid to members at such time and in such manner as the directors may determine;

that the scale of dividends due to patrons or members may vary as between the different kinds or classes of

commodities purchased by them from or sold by them to the association or services obtained by them from the association, in such proportion as may be determined by the directors;

that the directors may declare that no dividend shall be paid in respect of such commodities or services, or kinds or classes of commodities or services, as the directors may determine;

that the scale of patronage dividends paid to members may be higher than that of such dividends paid to patrons;

that no interest or no further interest shall be paid on the capital stock.

"It will be observed that the disposition of the dividends are under the control of the members and they may decide to have the surplus distributed on a patronage basis or used collectively for some purpose of the association.

"To summarize, it is submitted that recognized co-operative principles of one member one vote, open membership, limited returns on capital and the distribution of surplus on a patronage basis have been grated into the Act and that associations operating under it are truly co-operative in character. In other words, associations under the Act are simply convenient agencies by which groups of people in the province of Saskatchewan supply themselves with goods or services on a cooperative basis.

"Saskatchewan Federated Co-operatives Limited is a federation of these associations. As pointed out, the Legislature in 1913 empowered the Saskatchewan Grain Growers Association to act as agent for groups of farmers throughout Saskatchewan. The present Federation, which is the

the successor to the Saskatchewan Grain Growers Association, was established by incorporated associations to serve them and strengthen their financial position.

"The relationship of the individual association to the Federation is almost identical to the relationship existing between the individual member and the association. The organization of the Federation was merely one step further in the efforts which the individuals were making to satisfy themselves with goods and services. The individual members of an association were limited in what they could undertake. They could distribute coal but could not buy it from the mine and could not mine it. Collectively with other associations they could do both. Locally they could not mill flour for themselves; combined through the Federation they could finance such an operation. Individually they could distribute petroleum products but only collectively could they refine such products.

"To meet the growing demands of its member associations which are actually the demands of individuals reflected through their organizations, the Federation requires and has been given wide powers. The Federation is authorized to carry on, in accordance with the cooperative principles, business as wholesale and retail purchasers, vendors, traders and dealers, manufacturers, processors, millers, miners, refiners, canners, lumber and wood cutting operators, producers, importers and exporters of and in goods, wares and merchandise of every kind and description.

"The Federation's nominal capital is \$1,000,000 dividend into 4000 ordinary shares of \$100 each and 600,000 preference shares of \$1.00 each. Only ordinary shares have been issued, largely for voting purposes, and no preference

shares have been issued.

"The Federation is controlled entirely by delegates elected or appointed by the member associations. The number of delegates depends on the volume of business done by the association which they represent and each delegate has one vote only.

"The Act provides that the surplus earnings in each and every year shall, subject to the provisions of the by-laws of the Federation, be distributed as a patronage dividend among the patrons of the Federation in proportion to the volume of business done by such patrons with the Federation in such year.

"With respect to distribution of surplus, the bylaws provide:

'The Federation shall, at the end of each financial year of its business, apportion the surplus arising from the business of the Federation for such year as follows:

by setting aside not less than five per cent of the net surplus for a reserve fund, and the remainder of the surplus shall be divided among the members of the Federation in such manner as the Board of Directors shall determine, having regard to the volume and kind or class of the various commodities purchased by them respectively from the Federation during the period to which such division relates; provided further, that the Board may determine the manner and time of payment of such surplus and may retain the whole or any part thereof to assist in adjusting from time to time the amount contributed by each of such members and the members thereof to the funds of the Federation to provide the working capital thereof, on such basis

as the Board shall deem just and equitable.'

"Under its wide ancillary powers the Federation has power to hold shares in any cooperative having objects or engaged in any business or transaction similar to the objects of the Federation or in any business capable of being conducted so as to directly or indirectly benefit the Federation.

"Under this power, the Federation through holding shares controls wholly or in part a number of cooperatives including those dealt with under the next sub-heading.

"2. ASSOCIATED CO-OPERATIVES AND SUBSIDIARIES

CONSUMERS' CO-OPERATIVE REFINERIES LIMITED

"This Association was first incorporated under The Co-operative Associations Act and subsequently its incorporation was confirmed by Cap. 124 Statutes of Saskatchewan 1936, which has been amended from time to time. It was established by a group of cooperative associations to refine and distribute petroleum products. As a local association could not itself finance the building and operation of a refinery, a number of associations united as there was an unjust demand from the farmers of southern Saskatchewan for petroleum products suitable for their use at a fair price. The method by which the Refinery was controlled, and the manner in which its surplus was distributed, were similar to that of the Federation already described.

"As the Refinery was a new type of endeavour, involving processing, the Income Tax officials at first contended that it was liable to pay tax. Submissions were made on behalf of the Refinery including the following:

"(a) That it was a farmers' cooperative within the meaning of Section 4 (p).

"(b) That the local cooperatives through which the products of the Refinery passes, function merely as the corporate agents of their constituent members to pass on to them savings effected on their behalf by the Refinery.

"(c) That the Refinery in its operation did not make profit or gain and at common law was not taxable.

"(d) That the Refinery was an association owned or controlled by cooperative associations and was organized for the purpose of financing their operations. It was finally conceded, by the taxing authorities, that the Refinery was not required to pay income tax.

"The Refinery had a rapid growth, meeting in a great measure the increasing demand of its growing membership. By 1944 it was to a great extent serving the same individuals, owned and controlled by the same individuals as those who were served by and owning and controlling the Federation, which until 1944 was called the Wholesale. The Wholesale and Refinery by agreement amalgamated under one central control.

"The shares of the Refinery, previously held by local associations, have been acquired by the Federation which controls the Refinery and is itself, as before explained, controlled by the member associations.

CONSUMERS' CO-OPERATIVE MILLS LIMITED

"This association was organized in 1939 for the purpose of acquiring and operating milling facilities. It is owned and controlled by the Federation and its Charter contains the usual cooperative features. Its incorporation was confirmed by Cap. 116 of the Statutes of Saskatchewan 1940.

INTERPROVINCIAL CO-OPERATIVES LIMITED

"This is a Dominion company whose Letters Patent contain the usual cooperative features, such as already described. It was incorporated in 1940 but has not engaged in business to any great extent.

"It is owned and controlled by the Federation and similar cooperative wholesale societies in other provinces. It was established with a view to enabling the Federation to join with similar cooperative organizations to 'carry on trade in Canada and elsewhere on a cooperative basis, and generally to carry on, on such basis, a wholesale and retail business as exporters, importers, manufacturers, producers and other businesses.' Consideration is being given to possible joint arrangements with producer co-operatives.

NATIONAL CO-OPERATIVES INCORPORATED

and

FARM MACHINERY CO-OPERATIVE INCORPORATED

"These are American companies organized on a co-operative basis. They are owned and controlled by the Federation and similar cooperative wholesale societies in Canada and the United States. They are instruments for coordinating the demand by members of cooperatives throughout the North American continent.

BUSINESS METHODS AND OPERATIONS"Development:

"The Federation commenced business in 1929 with 29 member associations, and at March 31st, 1944 the number of its member associations was 441. Its actual paid up capital at March 31st, 1944, was \$44,100 and members' deferred dividends of \$289,755.19, making total members' equities of \$333,855.19, which constitute the working capital of the Federation.

"During its fifteen years of operation from January 1st, 1929 to March 31st, 1944 the total volume of business transacted amounted to \$20,077,002.44. Nett savings after proper allowance for depreciation of fixed assets, provision for bad debts and special twine price reserve were \$522,208.30. This was applied as follows, \$51,840 to Fixed Reserve, \$18,484.07 Interest on Share Capital, \$17,896 to the Employees Savings and Superannuation Fund and the balance allocated to the Member Associations.

"A summary of the operations of the Federation to March 31, 1944, the date of the last official audit, is set forth in Tables 'A' and 'B' appended hereto."

I would like to submit an amended Table "B". The original Table "B" did not convey the information as we wished to have it put before you. This amplifies the statement we have there. The set-up is pretty much the same; that is to say, the year is the same. The total sales can be seen in the old Table "B". We had this done so that the total savings shown in column 1 would balance with the allocation of the columns all the way across.

Continuing:

"The amounts under the headings of Fixed Reserve and Binder Twine Price Reserve have not been allocated to the members. The latter item of \$12,500 is made up of \$6,428.25 set up from 1941 earnings and a further \$6,071.75 from 1942 earnings, and was largely an amount realized from an advance in price on inventory carried over from the 1941 Twine Season, and in anticipation of a possible future price decline, was specifically reserved for this contingency.

"Table 'A' shows the value of the Fixed Assets at cost, the total depreciation credited by years, and the nett

book value at the end of each financial period. Surplus equipment taken over at the time of purchase of the assets of the Trading Department were subsequently disposed of, this being the reason for the decreased value shown in the early years.

"Table 'B' shows the Sales, Provision for Bad Debts, Fixed Reserve and Interest paid on Capital by years and the totals of each of these items for the 15 year period ending March 31, 1944.

"Interest on share capital at the rate of 6 per cent. was paid for the years 1929 to 1935 inclusive, and at 3 per cent for the years 1936 to 1940 inclusive. Since that time no interest has been paid on share capital. The total amount paid out as interest on share capital since the inception of the organization was \$18,484.17.

"Method of Financing:

"The Federation has been mainly financed and its growth made possible by the member associations agreeing to leave their savings with the organization for the purpose of providing the finance necessary to furnish additional services which they desired.

"The policy from the inception of the Federation was to allocate the savings made each year to the member associations in accordance with the volume of business from each member. In the early years patronage dividends were credited to the members' share capital account. This was in accordance with the bylaws then in force, which required each member association to subscribe for five \$100 shares, the minimum cash subscription required on application for membership being \$100, and in no instance was this exceeded. This, of necessity, left the member association still owing

\$400 on the shares applied for by it. The bylaws were subsequently amended to provide for large cooperatives to hold up to \$1,000 in share capital. Interest at varying rates was paid on share capital. The bylaws then called for interest on share capital being paid at a rate not exceeding 6 per cent. Members of cooperatives had always regarded share capital as a contribution to a common fund to be used for the purpose of supplying facilities rather than as an investment. This idea was reflected in a new method of financing which evolved.

"Instead of building up share capital it was decided to limit the shares held by a member association in the Federation to one share of the value \$100, on which no interest would be paid, and set up the additional equity over and above this amount as deferred dividends under what, in cooperative parlance, is called the Revolving Door method of financing. This policy was inaugurated in 1940 and has been in effect since that time, and no interest has been paid on deferred dividends so retained.

"The basic idea behind this method of financing is that each individual and each individual association, in order to achieve equity, should furnish the necessary capital to finance his or its demands upon the cooperative organization that is required to furnish a desired service.

"The member associations decided to use the savings credited to them for the years 1929 to 1938 inclusive to furnish the capital necessary to provide the various services desired by the members. At the Annual Meeting held in 1939 it was decided that deferred dividends to the credit of member associations for the years 1929 and 1930 be paid out that year. In 1940 deferred dividends for the years 1931 and 1932 were paid, in 1941 deferred dividends for the

years 1933 and 1934 were paid out, and, in 1942 deferred dividends, credited on 1935 and 1936 purchases, were retired."

I have taken these cases at random showing how the dividends were credited by years and the dividends that have been paid up and the balance that is still the equity of the shareholders in the organization. Column 1 shows the amounts credited each year from 1929 to 1943 and the figures in brackets down the side determine when these were paid out. These are amounts credited and repaid. In 1939 we repaid \$302. In 1940 we repaid \$112, in 1941 \$113 and in 1942 \$806.15. I do not think I need go into further details in that connection. The same applies to all the different associations. Continuing:

"At the 1943 Annual Meeting the delegates unanimously decided that in view of improved economic conditions savings accruing to the members could be used to good advantage and should be retained for expansion of services to the member associations. No deferred savings were, therefore, paid out during the years 1943 or 1944.

"Under the terms of the agreement between Consumers' Co-operative Refineries and the Federation, at the time of amalgamation, 1936 and 1937 deferred dividends will be paid out during the year 1945, and it is planned to operate the business of the amalgamated body, the Federation and its subsidiary Consumers' Co-operative Refineries Limited, on the nominal share capital of \$100 from each member association plus seven years deferred dividends."

In the paragraph I have just read, the "1936" has to be deleted because it is already paid out. Continuing:

"Operational Methods.

"The Federation was organized primarily for the purpose of financing and providing a more economical service for the members, than was at that time being given, to eliminate what were considered unnecessary distributive costs, and ultimately to supply the members with such goods and services as could be furnished to advantage, having in mind the physical handling of merchandise and ultimately processing or manufacturing, where considered advisable.

"Business at all times has been restricted to as great an extent as possible to the members, and expansion of the activities has at all times been in response to a demand from the members for increased or additional services.

"In the early years, services rendered by the Federation were limited largely to bulk farm supplies such as binder twine, coal and wood and petroleum products, these commodities being purchased from the manufacturers or operators on the regular wholesale basis and with shipment direct to the local cooperative. As time went on various other lines were added, and in some instances inventories were carried for the service of the members, and as at October 31, 1944 the actual inventory of merchandise at Saskatoon and Regina was \$524,883.

"The cooperative method of doing business met with some considerable opposition from existing business concerns, and, as a result of refusals to supply commodities through the Federation or on such a basis as would permit of merchandise being handled to advantage, the cooperatives were forced into certain phases of activity that might not otherwise have been engaged in, or, at least not for some considerable time. Illustrations are the refining of petroleum fuels and coal mining activities. The operation of Consumers'

Co-operative Refineries Limited, which is now a subsidiary of the Federation, has been dealt with previously.

"Due to the attitude of a number of mine operators and their refusal to supply coal to or through the Federation on a satisfactory basis, steps were taken to ensure the needed supplies, this by way of assistance in financing of the operations of several mines, with the result that a reasonable continuity of supplies has been made available to the member associations.

"The Federation now owns approximately a fifty per cent equity in Hy-Grade Coal Mining Company Limited at Drumheller, which company is operated on a similar basis to other mines in that area, roughly half of the output of this mine is distributed through cooperatives, with the balance through the private trade. As with many other mines, operations have not been sufficiently profitable that excess profits or income tax have been assessable.

"The membership of the Federation is comprised of two distinct types of cooperative association, in so far as the organizational set-up is concerned, but both types adhere to recognized cooperative business practices and principles.

"All of the members are cooperative associations organized under the Co-operative Associations Act of the province of Saskatchewan."

There is a question about one.

MR. FRANCIS: I think it is reorganized.

THE WITNESS: Continuing:

"One group operates on a wholly autonomous basis with the conduct and control entirely within the group, whereas the other type delegates to the Federation certain functions, but in both instances the control is vested in members of the locals. The second group is commonly referred to as

affiliates of the Federation, and, under an agreement, have vested in the Federation advisory and supervisory functions, including the general supervision of the business and accounting and auditing."

We did not actually do the auditing. That is done through an auditor of the Federation, but it is funneled through the Federation. Continuing:

"The latter type of association was developed primarily to protect and safeguard the interests of the local member, the welfare of the local association and the Federation, and with a view to correcting weaknesses that had previously been apparent in the wholly autonomous associations resulting in numerous failures. Unlike a chain system type of organization, the affiliate plan is flexible as the agreement permits any association to withdraw on thirty days' notice at any time.

"A major function of the Federation has been to assist in the financing of the member cooperatives. This has been by way of the carrying of inventories for the service of the members and the extension of certain trade terms which involved very substantial financing. The extent of the financial assistance provided is set forth on Table 'C' appended hereto.

RECOMMENDATIONS

"The Federation recommends that when individuals organize their purchasing power through cooperatives, owned and controlled by them and operating according to the co-operative principles referred to, the savings on member business should be exempt from income tax and excess profits tax if such savings are allocated or paid to the members approximately in proportion to the patronage contributed by each."

This should apply irrespective of whether the cooperative is local in its scope, or is a federation of local co-operatives or is a subsidiary of cooperatives owned and controlled by cooperatives with the surplus accruing to the members of the cooperative on a patronage basis. Any portion of the earnings of a cooperative accruing from non-member business should be subject to the usual taxation imposed on profit business. The following would appear to be a reasonably adequate definition of a cooperative as used in this recommendation.

"A cooperative is --

"(1) An association incorporated or unincorporated, with or without share capital, of individuals who are united to satisfy their needs as producers or consumers, which for that purpose conducts enterprises and performs services for its members, which association:

"(a) is controlled by its members, on the basis of one member, one vote;

"(b) if it is incorporated with share capital and pays interest on such capital, restricts the rate of interest thereon to not more than 6 per cent per annum.

"(c) Operates to provide service at cost for its members, or for its members and patrons, and in so doing, periodically pays or allocates for payment to its members, or to its members and patrons, in proportion to the patronage contributed to each, all monies remaining in its hands after payment of all costs, expenses, interest to shareholders if any, and after providing for necessary reserves.

or (2) An association incorporated or unincorporated, with or without share capital, formed for the purpose of

furthering the objects of cooperatives as above defined, which:

"(a) is owned and controlled by cooperatives, or

"(b) operates solely as an agent for cooperatives,
and

"(c) follows the principles set forth in subparagraphs 1 (b) and 1 (c) above.

"WHY CO-OPERATIVES SHOULD NOT BE TAXED."

"Two or more individuals often combine their efforts to do something for themselves, such as erecting a fence, cutting and hauling a supply of fuel, putting up hay, providing shipping facilities. That is cooperation in its simplest form. It is to be encouraged as it is of mutual benefit. The burden on the individual is lightened; savings are made. There is no income or profit in a business sense. The principle is identical where larger groups of individuals cooperate to supply themselves with goods and services. When the people in a community organize a co-operative, they are in reality forming a partnership. They benefit to the extent they supply their needs through the association. As the supplying of human needs became more complex the type of organization required has changed. For instance, in so-called profit business, where a group of more than twenty associate together for the purpose of carrying on business, they are required to become incorporated. In a cooperative the incorporation does not alter the nature of the undertaking. Regardless of the creation of the new legal entity the nature of the organization is more like a partnership. In the complex society which has evolved, the new entity is merely one of the convenient facilities which the members require to effectively achieve their aims.

It has the advantages of continuity, it has features which are convenient as it can easily sue and be sued, and is well adapted to its changing directors and membership. In the Federation there is in effect a partnership of individual associations. The individuals still control although by necessity, through delegates, in view of the wide area served by the Federation. The Federation actually serves the individual members; it has no other purpose. Groups of individuals do not find it practicable to personally attend to the details of the cooperative venture as they would in building a line fence or erecting a community machine shed. Instead they appoint agents, they provide certain facilities to serve them locally and others to serve them in the whole-sale and manufacturing field. The latter are those owned nominally by the Federation. The fact that title to goods is first acquired by the Federation then passed on to the local association and then in turn to the individual member does not alter the true nature of the transaction. The fundamental distinction between the Federation and the ordinary business is that it was not organized and does not operate to create profit revenue but to increase the economical operation and usefulness of the member associations which in reality are the individual members.

"Where a corporation is established for the purpose of making a profit, the net revenue is income. In the Federation the net revenue is an overcharge belonging to the member associations, which are actually the members themselves. In so far as the Federation is concerned, there is no profit or income and therefore nothing taxable. If, incidental to its main purpose, the Federation does, either through necessity or choice, engage in business with non-members and thereby derive a profit, the Federation concedes

that it should pay tax on such profits as arise from non-member business.

"The policy of the Dominion and Saskatchewan governments has been to encourage the establishment of cooperative enterprises. Declarations to that effect are substantiated by legislation such as the enactment of Section 4 (p). Relying on that encouragement, the people of Saskatchewan have put forward tremendous efforts to help themselves rather than relying on other agencies to help them. The policy of the Federation to date has been to supply goods and services at competitive prices, providing such were fair and equitable. The imposition of a tax would tend to discourage such useful cooperative activity and tend to encourage the adoption of unsound business methods by cooperatives.

"It is submitted that benefits derived from cooperative activity include the following:

"(1) Increased savings in the hands of individuals enable them to meet their obligations, to become more self-reliant, and results in providing a higher standard of living.

"(2) Proving a useful curb on other businesses. The report of the Royal Commission on Price Spreads, which made a careful survey of Canadian business a few years ago, stated --

'It is our opinion that further development of consumers' cooperatives in Canada would be a general benefit, introducing a restraining influence on the practices of other merchandising organizations and assisting in consumers' education which we feel is most necessary.'

"(3) Cooperatives are established and operated to meet a known and organized demand and for no other purpose. It is therefore submitted that since production and

distribution are closely related to consumption, the development of cooperatives unhampered by taxation, tends to minimize the danger of periods of over production followed by business disruption and unemployment.

"(4) In the province of Saskatchewan the educational advantages derived from the democratic operation of cooperatives has been particularly noticeable. The assistance given in consumers' education was noted by the Royal Commission on Price Spreads."

MR. FRANCIS: I presume my learned friend wishes to examine the witness, but I can proceed if he prefers.

MR. PARKER: Whatever you say.

MR. FRANCIS: I will follow you.

BY MR. PARKER:

Q. I am going to ask you two questions in the reverse order to which you read. I begin with page twenty-two at the bottom of the page where you say: "It is submitted that benefits derived from cooperative activity include the following: (1) Increased savings in the hands of individuals enable them to meet their obligations, to become more self-reliant, and result in providing a higher standard of living." Isn't that equally true of dividends paid out by ordinary limited companies -- any moneys which they disperse throughout the community? A. If they go to the same people.

Q. Wherever they go, do they not enable those who receive them to discharge their obligations? A. They don't go to the right place.

Q. No matter to whom they go. Do you agree with that suggestion? A. Well, yes and no.

Q. To what extent "yes" and to what extent "no"? To how much do you say yes? A. If the individual were badly off it would help him to meet an obligation. If he had lots of

money in the bank it would not help him.

Q. You have heard of shares held by widows and orphans and how they suffer by dividends being taxed? A. Yes.

Q. Then it is true to the extent to which shares are so held, and to that extent your answer is yes?

A. Dividends will increase the purchasing power of anyone, whoever gets them.

Q. You say on the same page: "The imposition of a tax would tend to discourage such useful cooperative activity and tend to encourage the adoption of unsound business methods by cooperatives." What do you mean? That they are going to change their method of operation completely?

A. There is that danger.

Q. What is the change you threaten us with? Tell us.

A. I would hardly like you to construe it as a threat.

Q. I withdraw the word threat. But what is the nature of the change? A. We know what has happened in the grain business.

Q. Tell us what you have in mind, what the unsound business methods are. A. What I had in mind as to what might be done would be price cutting.

Q. Does the ordinary consumer suffer by that?

A. No. I have not heard him squeal.

Q. Perhaps it would be a good thing to have price cutting? A. We don't like it in business.

Q. The man who has to pay likes it. A. He consumes too.

BY MR. ELLIOTT:

Q. Mr. McKay, I am interested in getting your experience and bringing it to bear on the problem of what constitutes good business methods and how far cooperatives are likely to go in certain directions and how far it would be wise to

go. Do you suggest that if a tax were imposed on the whole surplus revenue of the cooperatives some cooperatives might be induced to charge lower prices to begin with? If so, would you explain that and tell us exactly how you think that would be undesirable to everyone concerned and how far you think cooperatives should go? You have had long experience and perhaps you can tell us? A. Counsel has pointed out that it would possibly meet with the approval of the buying public, but in my opinion it would be neither in the interests of the cooperatives nor in the interests of their competitors to enter into an era of price slashing. It would not be conducive to sound business in the future.

Q. Do you mean that possibly the cooperatives -- we concentrate on them because you are familiar with them -- would have deficits for some years instead of surpluses? Is that the possibility? A. It depends on how far price cutting would go. A reasonable manager would not go beyond the danger line, but if you got into a price war you would forget all about the danger line.

Q. What do you mean by danger line? A. Between making a profit in competitive business and having a surplus in cooperative.

Q. But you have to anticipate a little, and the price you charge would allow enough leeway so that if you made bad guesses you would not have a deficit. How close do cooperatives come to that line now, on the average -- or could you make a generalization? A. By and large, it has been the general policy of cooperatives not to disrupt the local conditions. Certainly, established prices if fair prevail in the community both on the part of cooperatives and among other interests. Sometimes other interests take

a ride out of the cooperative and cut prices and occasionally it may happen the other way. But under ordinary circumstances prices are fairly well stabilized at going competitive levels.

Q. Do you think it would be unsound business policy for the cooperatives generally to abandon that method even if they were taxed? A. Yes, I do.

Q. You have established a revolving fund on an eight-year basis? A. Yes.

Q. What are the factors determining the length of the period between the apportionment and the actual payment to the member associations? A. There are about five hundred factors.

Q. What would you consider the more important ones in the case of your association? A. The delegates at the annual meeting number some five hundred and they determine what the organization shall or shall not do, and if they determine on some policy that involves capital expenditure they are sporting enough to say, "Leave the money there."

Q. You have observed the delegates at annual meetings for a number of years? A. Yes.

Q. In poor times they are less willing to leave money in than in bad times -- or, once again, can you make a generalization. A. The experience I have had with delegates from the Saskatchewan cooperatives has been wonderful. They came in when conditions were criminal and though they had a few dollars coming to them they didn't ask for it. Today when they have lots of money it is the same.

Q. I notice that in the last year you decided to leave it all in. A. Yes.

Q. I thought perhaps that was the explanation that you would give, that people had more money and it was a good

time to get them to leave it in. A. Yes. They had more money and wanted more service.

Q. What importance do you attach to the length of time between the apportionment to the member and the time the money is actually paid out -- I mean as an individual cooperator? Do you think there is an ideal or an approximately ideal period? A. That is a difficult question.

Q. I know it is. A. Our ideas have changed. I originally thought of five years, but now I don't care if it is fifty years. In the final analysis they are the people who have the say as to what they want done with their money. If they want additional services we are their instruments and we have to go ahead and do as we are instructed.

Q. With regard to some of the provisions of the Act which you quote, I would like to get your opinion about them, and again I am asking a hard question. If you do not want to answer it is all right. A. I will do the best I can.

Q. On page six you set out some of these provisions, for example: "(a) by setting aside not less than ten per cent of the surplus for a reserve fund and so from year to year until the reserve fund is equal to at least ten per cent of the total assets of the association as shown in its audited financial statement for the fiscal year." That is a provision of your bylaws? A. It is from the Co-operative Associations Act.

Q. Have you any idea why that was put in?

A. I would say it was to provide what looked like an element of safety, and it looked like good business. We cannot always make a profit and some day there has to be a cushion.

Q. And if members began to entertain wild ideas of getting it all back, this would prevent them from taking it all; or do the members or delegates ever want to apportion

immediately all the surplus? A. Sometimes, yes.

Q. And this would prevent them from doing that which might endanger continuity? A. It enables the co-operative to develop slowly and still have on paper a certain cushion.

Q. It requires them, at least, to develop slowly and saves them to some extent from the danger which you fear?

A. It is a protection for the little investment that is there.

BY MR. PARKER:

Q. At the top of page twenty-two you make this statement: "Where a corporation is established for the purpose of making a profit, the net revenue is income." I assume you mean the reverse of that is also true, that where a corporation is established not for the purpose of making a profit -- as the cooperatives say is the case so far as they are concerned -- then it cannot have a profit or revenue. Is that your argument? In other words, does the purpose for which the company was created affect the question whether or not it has a revenue or income? A. The purpose, yes.

Q. The purpose is the guiding principle? A. I would be inclined to say so, yes.

Q. Do you know there is a great authority to the contrary? A. No doubt.

Q. You know there are a great many who hold an opinion contrary to that? A. Yes.

Q. Would you agree with this statement which I will read to you: "It is well established that once the sum assessed has been ascertained to be the proceeds of trade or business, neither the motive which brought those proceeds into existence nor their application when made is material."

That is a statement made by Mr. Justice Lamont of the Supreme Court of Canada. That is what he said. Do you agree with it? A. That is what some claim.

Q. And are you prepared to say that is the opinion of all the associate members of the association which you represent here today, and their individual members?

A. I want to make my position clear. I am not a lawyer, and we have counsel.

Q. You may thank your stars that you aren't. However, I want to find out if that is the considered opinion of the cooperatives, that the purpose is something which decides whether or not they make a profit. Is that their view as you understand it? A. You are getting into the realm of law and I will leave that with our solicitor.

BY MR. ELLIOTT:

Q. When you are deciding on what sort of associations are proper members for your organization, the central association, do you look to their purpose, what they say they want to do, or to the way in which they conduct their affairs, or both? A. We live in Saskatchewan and these cooperatives have all of good purpose organized under the Co-operative Associations Act. They are given the once over by the co-operative markets branch.

Q. You take their good intentions for granted?

A. Well, we take them in.

Q. Do you see any difficulty that might be involved in having the local officials of the Department of National Revenue go to these men and say, "Did you intend to make a profit this year?", using the answer, yes or now, as a basis for deciding whether there was taxable income? A. Are you referring to the Federation or the associations?

Q. I am referring in the first instance to your Federation and in the second instance to the associations.

A. The members are the association and what they say is incorporated in the by-laws.

Q. They state their purpose in the by-laws?

A. Yes, possibly not quite fully in the by-laws.

BY MR. ARNASON:

Q. Might I impose on Mr. Parker's good nature to ask you this question, Mr. McKay. Perhaps I might put to you in another form the same question that Mr. Parker and Mr. Elliott have asked you. In your opinion, is Mr. Parker's question affected in any way by these three factors: first, the purpose for which the cooperative is organized, as set forth in the statement of its objectives; with whom that cooperative does business or to whom it renders services; and, thirdly, what is done with the money that results from the transaction. Does that question throw any light on the subject as far as you are concerned, so as to assist you in answering the question that has already been put to you in two other ways? A. Would you mind repeating that?

BY MR. PARKER:

Q. Possibly the question was a little difficult, because I may have offended against the rule by putting two questions in one. I shall be glad to separate them. First, I want to know if the purpose or intention, or the motive from which a business is carried on, can possibly affect the question whether or not the company makes a profit, and if so to what extent. The supplementary part of the question is this: Does the manner in which these surpluses or earnings, or whatever you call them, are disposed of possibly affect the nature of the thing disposed

of? In other words, you have something there, whether it is profits or not. Why you acquire them, the purpose or motive in acquiring them, or what you do with them after you get them, whether you squander them or invest them -- I suggest that neither the motive on the one hand nor the disposition on the other has anything to do with the question whether or not the company has made a profit. Is that clear? Some transactions are carried on which result in something the nature of which we are trying to find out -- whether that something is profits or not. A. Well, as to the first point, purpose, you have more or less got me at a loss. I would like to get the question clearly.

Q. You are in good company; we are all struggling with this problem. All that we ask is that you -- and I am not flattering you -- as a competent, experienced man in the business, give us your considered views. The question is threefold: the purpose, the method of accomplishing that purpose, and the disposition of the result so accomplished.

MR. FRANCIS: Yes; that is it.

MR. THORVALDSON: I wonder if I might ask the witness a question.

MR. PARKER: Not at this stage; he is endeavouring to answer mine.

THE WITNESS: And your question is whether that would affect what?

MR. PARKER: Affect the question whether a cooperative had made profits. Is the question clear to you?

THE WITNESS: It is somewhat difficult. I would like to give thought to it. I hold a responsible position and I don't want to give a half-baked answer.

BY MR. PARKER:

Q. That is quite proper. But what prompted the

question was the statement you made in your brief, that where a corporation is established for the purpose of making a profit, the net revenue is income. The converse of that ought to be true? A. A cooperative is not established for the purpose of making a profit. If it is a proper cooperative it never is established to make a profit. It is established by people for the purpose of saving for themselves, in other words, the purpose of getting goods at cost. The element of profit does not enter in, as I see it. The method might have some bearing on it. If we departed from cooperative principles the method would have some bearing.

Q. What are the cooperative principles? A. They have been enunciated by lots of witnesses, and they are here.

Q. But there are no two of them quite the same. In your opinion yours is the correct one? A. Yes.

Q. I think you have answered two of the points. What about the third one? What about the disposition of earnings or savings? A. The disposition must be carried out in accordance with recognized principles. In other words, if the earnings were distributed not in accordance with equitable cooperative ideas, then naturally it would be cooperatively unethical and would not be justified.

Q. On page twenty you set forth, as I take it, the attributes which a company must have in order to be a true cooperative. Among these attributes which you have set out is the following: "(c) Operates to provide service at cost for its members, or for its members and patrons, and in so doing, periodically pays or allocates for payment to its members, or to its members and patrons, in proportion to the patronage contributed to each, all moneys remaining in its hands after payment of all costs, expenses, interest to

shareholders if any, and after providing for necessary reserves." I am particularly interested in the word allocate. The system under which your Federation operates, under the revolving door scheme of finance, is this, as I understand it. You allocate a certain amount of funds -- I must not call them profits, because you haven't got any -- at any rate, you allocate certain dollars and cents to each member according to the amount of business done with that member during the period in question? A. That is correct.

Q. What is the distinction there between member and patron? A. Distinction?

Q. Yes; what is the distinction as you use it there? A. A member is a shareholder of a cooperative association.

Q. But in cases where there are no shareholders? A. He is a member by virtue of whatever the rules are with regard to membership. It may be one dollar or ten dollars.

Q. But where there is no share capital or membership fee? A. A cooperative has one or the other. It must have. The patron is the casual individual who will not subscribe either to membership or to shares. He is the patron.

Q. And do you pay and allocate to them on the same basis, according to the amount of business they do?

A. That is optional. In our organization, we do, if we have any.

Q. I am thinking of the small unit organization where you have the individual member. A. As a rule they do, but they have the privilege of paying a differential dividend, so to speak, a smaller rate to the patron than to the member.

Q. Would I as a casual customer, being neither a member by subscription for share capital nor one by reason of application for membership, but being simply a person going to buy a package of tobacco -- would I be a patron?

A. The Co-operative Associations Act in Saskatchewan defines "patron".

Q. What is it? A. He is a non-member or non-shareholder. Patron means a non-member, who, as a customer of an association, purchases goods or services to the value of over fifty dollars in any one year.

Q. Say I go to your store as a casual visitor and buy over \$50 worth of goods. It is the first time I have been in and I may never go again. Does that qualify me for dividends? A. Yes, under the Co-operative Associations Act.

Q. And that is what you mean here? A. Yes.

Q. You also say, and I would like to know why, that the allocation of it is the same as the actual payment of it. You allocate a member's share for this year and under the revolving door plan he does not get it for six, seven, eight or ten years. It takes the door that length of time to revolve. Is that correct? A. It is according to the number of years he says you can keep it.

Q. He says? A. The member definitely says how long it is to be kept -- or the majority of members.

Q. The will to do it being expressed through the directors? A. No, at the annual shareholders' meeting.

Q. But he does not get it? A. No.

Q. Take a cantankerous member who says, "I don't care what the majority says; I want mine, and I don't want it to stay in six or seven years. I am going away, or I am going to get married; anyway, I want it." Tell me under what circumstances he can get it. A. We don't have those people in Saskatchewan.

Q. I always knew this was the banner province of the Dominion, though I have found some of the same kind in

Alberta. But suppose some of them did take the attitude I have described, what would happen? A. We have an unwritten law in Saskatchewan that if a shareholder or a patron is bona fide leaving the district or the province the equity is paid if the finances of the association are in such shape that it can be retired.

Q. Let us go one step further. Suppose he does not want to agree with the majority and he cannot get it. Is there a provision to take care of him? Is there any way he can get it? I am speaking of the minority shareholder who wants his share. Does the majority say how it is to be allocated to him? Is that the position? A. Until the expiration of whatever date the majority says. Isn't that the system we are under all the time?

Q. You make no distinction, whether he is entitled to get the money now or whether he is entitled to get it five, six, seven or eight years; he is still a good co-operative member? A. He comes in there and buys. "Let the buyer beware." He knows he is likely to get a dividend and he knows he will have to take it whenever the organization is prepared to take it out.

BY MR. NADEAU:

Q. Did you file your complete by-laws? A. Do you mean for the Federation?

Q. Have you any consolidated financial statement? A. We have purposely avoided loading the submissions with statistical data, feeling that the Commission would not be particularly interested. This, however, is not to be taken as a reluctance on our part to give any and all information with regard to the operations of the Federation, its subsidiaries and affiliated cooperatives, and I wish to assure the Commission that, in so far as lies in our power, any

statistics or other information that may be desired will be made available either during the Regina sittings or, if that is impractical, at a later date when it will be forwarded. It will be given without delay.

Q. Do you prepare at the end of each fiscal year a consolidated balance sheet? A. Yes.

Q. Would it be possible for us to have one or two for the last two or three or four years? A. You can get anything you want within reason which we can provide. How many statements would you want?

Q. Since 1939. A. 1944 is not audited. Would you want from 1939 to 1943 inclusive?

Q. Yes. A. I have 1943 if you care to have that.

BY MR. PARKER:

Q. Will you turn to page eighteen. There are one or two questions I want to clear up. This cooperative association which you are representing today is in the coal mining business? A. Yes.

Q. Is that what you call a service that you render the members? You talk a good deal about services. Which head does this fall under -- goods or services? A. Both.

Q. You say: "Due to the attitude of a number of mine operators and their refusal to supply coal to or through the Federation on a satisfactory basis, steps were taken to ensure the needed supplies....." To the satisfaction of whom, do you mean -- the Federation? A. Yes, the Federation.

Q. Perhaps they were a little unreasonable?
A. We thought so.

Q. I mean, perhaps the cooperatives were unreasonable.
A. The others possibly thought so.

Q. Were they charging you more for coal then than your competitors, so-called private enterprise, at the time to which you are referring? A. I would have to explain that.

Q. Can't you answer the question first and then explain the answer afterwards? The question is whether they were charging the Federation and private business the same price? A. They were selling to our competitors and would not sell to us.

Q. Would not sell to you at any price? A. Well, yes; put it that way.

Q. Is that correct? A. Yes, that is correct. That is their way of doing business.

Q. They boycotted you, absolutely refused? A. No. That is their way of doing business.

Q. What do you mean by saying that they refused to supply you -- simply would not sell? A. That is correct.

Q. Was any reason given? A. Those mining companies have their own wholesaling channels which they were not prepared to disturb.

Q. And they did not want to take on new ones? A. Yes.

Q. And this refusal came when you first applied to them, and you set up in business? A. Yes.

Q. That is not an unusual thing to happen in private business? A. No. But what are you going to do for coal?

Q. Was there any necessity for your company to go into the coal business? A. To supply our customers.

Q. They wanted it and you wanted to supply it? A. Yes.

Q. Then you say: "....steps were taken to ensure the

needed supplies, this by way of assistance in financing of the operations of several mines." How was that assistance given? Where did you get the money to go into coal mining?

A. It was not a very large amount involved. We shall be getting into history pretty soon.

Q. Can't we shorten it? This organization of yours being a Federation of small cooperative units, there came a time when you got fed up and branched into coal to operate coal mines, and it took money? A. Yes.

Q. Where did the money come from? A. From our people only.

Q. From your people? A. Yes.

Q. From the members? A. Yes.

Q. The different local associations? A. Yes.

Q. And they in turn got it from whom -- the local associations? A. From their local members, yes.

Q. Out of the very amounts which were held back from the local members for five, six, seven or eight years? A. Possibly.

Q. And in some cases against the minority wishes of those people who joined the local cooperative with a view to getting groceries a little cheaper. Against their wishes, against their will, their money was being used to go into a coal mining venture. Is that a fair way to sum it up? A. No.

Q. What is wrong with it? A. If that summing were correct we would have a lot of protest, but to the best of my knowledge there has not been any protest in the local associations, and certainly there has been no protest in any meeting of the Federation.

Q. Is it true that after you started in you lost money in the coal business which you operated? A. No, it is

not true. We did not make any but we did not lose any.

Q. You make this statement on page eighteen: "As with many other mines, operations have not been sufficiently profitable that excess profits or income tax have been assessable?" A. I don't want to go into that or to wander too far afield, but in the mining field, through subsidies, losses have been taken care of by Government, and there was a certain loss there taken care of by Government.

Q. That is a pretty good place to charge up losses to -- the Government -- if you can get them to do it. A. We are not the only ones that do it.

Q. I know you are not. Turn to page seventeen, please: "Business at all times has been restricted to as great an extent as possible to the members." To what extent was it possible to do that, and to what extent was it necessary? To what extent in fact have you been doing business with non-members? A. In 1943 non-member business was 4.75 per cent.

Q. Did you keep every transaction separately? A. Yes.

Q. In the books of the association? A. Yes.

Q. And you knew from day to day every sale made, whether to members or to non-members? A. It is simple as far as the Federation is concerned.

Q. You are not speaking in reference to the locals? A. No; it is difficult for them.

Q. But even 4 per cent may run into a lot of money when you are doing business on the scale on which you are operating. Why does this Federation do business with non-members? A. There are several reasons.

Q. Give one or two, the most important. A. One reason was that we started a year ago in the wholesale grocery and in order to get established on some of the jobbers' lists

we had to agree or had to prove that we were not just a buying organization for our own group. In other words, we had to take on outside business. There is a small percentage of that. Furthermore --

Q. That is satisfactory; I don't think you need to go further. In the next paragraph you say: "As time went on various other lines were added, and in some instances inventories were carried for the service of the members, and as at October 31, 1944 the actual inventory of merchandise at Saskatoon and Regina was \$524,883" -- well over half a million dollars. That represents merchandise of one kind or another that your Federation went and bought and paid for?

A. Yes.

Q. And they were your goods. You treat them as your goods and later on you speak of acquiring title to the goods?

A. Legally they may be our goods, but who are we? We are appointees.

Q. You used the powers granted by law to become incorporated. You thought that was of some use to you or you would not have taken advantage of those powers. By "you" I mean the company. It was the company that bought those half million dollars of goods? A. Yes.

Q. They were not immediately needed. It was against a future date when the members and sub-members, the local members down the line, might require them? A. Yes.

Q. And you had the goods to sell to them if, as and when required by them? Is that a fair way to put it?

A. Yes.

Q. And as you delivered them to your members and sub-members all down the line, you collected from those individuals considerably more than you paid for the merchandise?

A. Yes.

Q. Between what you paid for them and what you get for them, you get the expenses of the Federation and still have something left? A. Yes.

Q. That was your money, that is the Federation's? A. Yes; legally yes.

Q. Legally or actually. I don't want to hold you to legal terms; I know little about them myself. Now, that is what I suggest to you constitutes profits. I suggest that that Federation made profits. Will you tell me in what way they did not? They bought goods at a certain price and sold at a higher price, deducting expenses so that they had a balance. If that is not a profit will you tell me what it is? A. Had I been doing business --

Q. Answer the question, please. Give it a name. A. Had I been doing that business personally that would have been a profit; but I am doing business for a group of people and I buy for them and distribute the goods among them, and therefore it could not be a profit.

Q. If that is your explanation I accept it.

BY MR. NADEAU:

Q. Would it be a benefit to the whole of the members? A. That is why we are in it. That is why they are in it, to benefit themselves.

BY MR. PARKER:

Q. Let us test it this way. Suppose a lot of these co-operatives went out of business and you could not unload that half million dollars' worth of merchandise. What would be your position? To whom would you charge up the loss?

A. I don't know. I have been in this province since 1911 and these contingencies, bad as conditions were, have not arisen yet.

Q. Is it not within your knowledge that many co-operatives have been literally failures and have closed their doors? A. Not for the reasons you imply.

Q. I did not say for what reasons. A. Yes, it is true.

Q. It does not make any difference whether they have actually done it or not. I am trying to test the soundness of the principle. Should such a thing as I have suggested happen, what would it lead to? A. If the goods could not be sold there would be a loss.

Q. And who would bear the loss? A. The members. Nobody else could take it.

BY MR. ELLIOTT:

Q. Suppose a small loss was made in your association in a year. First, is it possible that through an error of business judgment you might make a small loss?

A. That is quite within the realm of possibility.

Q. Suppose that were to happen, how would it be taken care of exactly? How would it affect the credits of the members of the association? A. As long as it was not greater than the unallocated reserve it would be charged against that reserve. If it was greater than that reserve it would be for the time being an impairment of capital, an impairment of patrons' reserves. However, we hope that we shall not have anything like that, though that is what would happen.

Q. I am asking what would happen in such cases. Would it be debited to patrons' reserves in proportion to the business they did with your association in the year in which the deficit occurred? A. I would say that would be the proper way to handle it.

Q. But you have not had that experience?

A. No, fortunately.

THE CHAIRMAN: Do you not regard the limitation of liability as one of the essential advantages of incorporation?

THE WITNESS: Yes.

THE CHAIRMAN: Then this sentence on page twenty-one is not complete: "In the complex society which has evolved, the new entity is merely one of the convenient facilities which the members require to effectively achieve their aims. It has the advantages of continuity, it has features which are convenient as it can easily sue and be sued, and is well adapted to its changing directors and membership." Would you not include limitation of liability there? Then you go on to speak of partnership which is unlimited. Do you not regard limited liability as an important element in corporate existence?

THE WITNESS: Yes, possibly. But in the organization of any of these various ventures we rely very largely on our legal advisers.

MR. PARKER: Don't blame us for all these cooperative businesses.

BY MR. ELLIOTT:

Q. Have you the power, legally or in practice, to collect losses from your member associations? Suppose -- let us hope it will not be -- that your deficit in any year were so great that it wiped out all the members' reserves. Have you the power, or would it be practicable, to collect anything from your members relatively to their purchases with you? A. After their quota was used up, would we have the power to go back for more?

Q. Yes. A. Oh no; I don't think so.

BY MR. VAUGHAN:

Q. Sometime ago, when Mr. Parker questioned you, he referred to the distinction between saving and profit. Where do you draw the line? A. If an individual buys something and sells to somebody else for more, it looks to me very much like profit; but where a group of individuals buy stuff for themselves there cannot be a profit.

Q. What would you call it? Suppose there is a gain, how would you describe it? A. There is an overpayment or an overcharge.

Q. But you say they charge the same price, the prevailing price. The difference is what you call savings. Does not one profit by a saving? If he saves in something, does he not profit? A. You will get me trying to explain "profit".

Q. You speak of saving as against profit. What is the distinction? A. If the buyer and seller are one, there is no profit. If you charge yourself fifty dollars over what you should pay, have you made a profit?

Q. If it is a saving, why is it not a profit also? A. I don't know.

Q. It is hard to draw the distinction. It is hard for us to understand it. There were two other questions I wanted to ask you. On page 22 you say: "If, incidental to its main purpose, the Federation does, either through necessity or choice, engage in business with non-members and thereby derive a profit, the Federation concedes that it should pay tax on such profits as arise from non-member business." Do you not agree that there is a profit when you state it that way? A. We agree that there is a profit on non-member business. In other words, if you came and

bought \$100 worth of goods from our organization, whatever we made on that over and above operating expenses would definitely be profit.

Q. You say it is profit in one case and not in another.

A. In dealing among ourselves it is not, but dealing with outsiders we admit it is profit.

Q. But it is the same kind of transaction? A. There is a difference between dealing among ourselves and dealing with an outside group.

Q. You say there should be a tax on such profits. How would you determine that tax? How would you determine the profits on which to impose the tax? You say that such profits should be taxed? A. We concede it to be profits.

Q. But you say that "if, incidental to its main purpose, the Federation does, either through necessity or choice, engage in business with non-members and thereby derive a profit, the Federation concedes that it should pay tax on such profits as arise from non-member business." Having said that the tax should be paid on such profits, how do you arrive at the profit in the first place? A. I presume it would be on a percentage basis. I would assume that 10 per cent of the earnings in business done with non-members would be profits and as such taxable. That has been the practice followed in connection with the 20 per cent exemption, I understand.

THE CHAIRMAN: Do you make the same concession in regard to investment income? I suppose you have some Dominion bonds?

THE WITNESS: Yes.

THE CHAIRMAN: What about income from them. Is that profit?

THE WITNESS: That is something I have not considered but I am inclined to think it is.

THE CHAIRMAN: I am asking whether you make the same concession in regard to that. That may not be a profit?

THE WITNESS: I would not want to give a definite reply. It was not considered by the group and I would prefer not to elaborate on that.

BY MR. VAUGHAN:

Q. Would you call that savings or earnings? Would you call savings and earnings the same thing? A. I don't know whether the names are proper or not, but we use that terminology to mean the same thing. We use the word profit when dealing with profit made on non-member business.

Q. Do you use the words "earnings" and "profits" to mean the same thing? A. Earnings and savings mean the same. We interchange those two words, meaning the same thing.

Q. You make the same kind of statement on page 19. You say: "Any portion of the earnings of a cooperative accruing from non-member business should be subject to the usual taxation imposed on profit business." You make that same distinction. I presume you call it a profit when it is non-member and earnings when it is member business?

A. Yes.

Q. In your Table "B" I notice an item "employees' savings and superannuation reserve, \$17,896." Is that the members' money that goes into that? A. That is the employer's contribution only. There is a substantial amount of employees' contribution but it is not included there.

Q. How does the contribution come from the employee to the fund? A. That is a contribution from the employer that is shown there.

Q. But I am speaking of the employee. How does his contribution get into the fund? A. There is a deduction from one month's pay.

BY MR. ARNASON:

Q. Will you permit a question, to get away from these interpretations of terminology. Counsel made reference to the right or lack of right of a member who might want to withdraw his savings or investment in the cooperative association; in other words, anyone who might be opposed to the policy laid down in the by-laws of the association with regard to the deferring of dividends. Is the method which is now generally followed in dealing with requests of that kind considered to be generally satisfactory, or have you heard any complaints from members who wish to withdraw their savings? A. In my opinion, that seems to have been quite satisfactory. I don't think we have had any complaints.

Q. A second question in that regard would be this. I take it that what we are concerned with here is not so much the question of legal rights, or at any rate not only the legal rights of a member, but also the question of practical business procedure. Do you think it would be possible or feasible to put into the by-laws of the local association some provision which would enable a member who desired to withdraw his investment in the association to withdraw such investment by giving three months' notice, or six months or a year, regardless of any by-law regarding deferred dividends? A. I would be doubtful of the advisability of any such by-law for the simple reason that were the association to take a loss that might pave the way to the ultimate wrecking of the association. A number of people might rush in to draw theirs out and the result would be the disintegration of the whole organization. It would be highly inadvisable to think

of that even.

Q. I notice somewhere in the brief you state that the fixed reserve was not allocated as compared with the deferred patronage dividend? A. That is correct.

Q. Would it be feasible to allocate that fixed reserve as well? A. I think that will be one of the problems that will be coming up for study by our organization in the near future. Some little thought has been given to the question already but it has not been dealt with. In all probability, ultimately, that reserve may be earmarked the same as deferred dividends, or if there is a possibility that there would be no more of that the two will be thrown together as nominal capital and deferred dividends.

Q. That would mean that all could be allocated?
A. Yes.

Q. You think it is practicable? A. It is within the realm of possibility. I think it is wise within limits to permit of a moderate unallocated reserve to take care of the possible contingency of loss.

BY MR. VAUGHAN:

Q. Do I understand that the contribution to the pension fund is deducted from wages? A. There are two portions. The portion that appears there was subscribed by the employer. The Federation reserved that. At the time that financial statement was made it was in its initial stages. Today that fund has disappeared and that is put into our savings, into investments. But at that time it was still with the organization; that was the portion the organization put in.

Q. I understand you to say that was deducted from wages. A. No. That was specifically the employer's contribution; but in addition to that there is an employees contribution separately, although it is not shown here.

This is merely an allocation of savings for the years, so that the employees' contribution does not appear there. But it is added there to make a joint savings and superannuation fund.

Q. When you say "employer" you mean the Federation?

A. Yes.

Q. That goes out of the reserve, allocated from the savings? A. Yes. It is taken direct from savings as operating expense the same as any other.

Q. In an ordinary company that would not be permissible at all, to deduct an amount like that and pay it before taxes were paid. Is there anything that would make that permissible in a cooperative? A. Of course, there could be a difference of opinion there easily, couldn't there? Some of us argue that a proper cooperative should take cognizance and give recognition to labour.

Q. That is all right. A. In the results labour should share, and this is merely the first step towards the recognition of that principle.

THE CHAIRMAN: The question is, does that qualify for tax exemption, that particular part of the reserve which you use for that purpose?

THE WITNESS: That point has not been raised.

THE CHAIRMAN: Mr. Vaughan said that an ordinary company would not be allowed to do that.

THE WITNESS: To deduct superannuation?

BY MR. PARKER:

Q. To follow up the question put by the Chairman, you do regard the fact that you became incorporated and thereby secured limited liability as a very valuable factor in the cooperative set-up? Is that a fair way to put it?

A. Yes, I think so.

Q. And as you have said, it is a separate legal entity as distinct from the members? A. I am sorry, but that is a legal question.

Q. The point is made affirmatively. The members go and apply for a charter and secure a charter as a limited liability company? A. Yes.

Q. You said you could not have profits when trading with yourself; that is the theory -- there are no profits because of that fact. These individual members are not doing business with themselves but with a company, this thing that you have set up? A. That they set up.

Q. For one purpose you seek the advantage of a third person, an artificial person in the limited liability company, but when it comes to taxation purposes you abolish that person. It disappears like a ghost and there is nothing left but the members. That is the theory? A. That is not a fair statement.

Q. Well, will you analyze it and show me where it is unfair? It must be on that basis that you decide you are not taxable, because you do business with yourselves. Is it not obvious that you do business between your members and the company? A. The cooperative movement was probably started when Dominion taxes were not in existence. The members got together and they used the law to form a little organization.

MR. PARKER: I suggest that possibly the reporter as well as the members of the board and the witness have had about enough today. I do not consider the case closed; there may be some questions in the morning.

MR. FRANCIS: We have had from different parts of Saskatchewan a number of local managers who are very anxious

to get home as soon as they can. Their duties are such that they need to be at home and I was wondering whether we could start at an early hour in the morning.

THE CHAIRMAN: I am suggesting that we meet at 9.30.

The Commission thereupon adjourned to meet on Wednesday, January 31, at 9.30 a. m.

.....

Wednesday,
January 31, 1945.

The Commission met at 9.30 o'clock a. m., Mr. Justice McDougall presiding.

Examination of Mr. Robert McKay continued:

BY MR. PARKER:

Q. Yesterday I asked you some questions about the Federation's entry into the coal business. Do you remember?

A. Yes.

Q. Did I understand you to say that the reason the company went into the coal business was because the existing companies refused to sell to the pools? A. Yes.

Q. Or was it that they refused to sell on the terms that the pool demanded? A. The Federated Co-operatives?

Q. They refused to sell on the terms the Federation demanded? A. Yes.

Q. They did not refuse to sell on any terms? A. Yes.

Q. My instructions are -- if I am wrong please correct me -- that they were quite willing to supply the cooperatives with coal provided you bought through their regular outlet. Is that correct? A. They were quite willing to sell to the local cooperatives but the local cooperatives wished

to buy through their own agency, and they would not sell to the Federated Co-operatives.

Q. On any terms? A. No.

Q. My instructions are that they were quite willing to sell to the Federation and to their locals provided you would buy through their regular outlets on the same terms as other wholesalers were getting coal. Is that correct?

A. That is incorrect. They were prepared to sell to the locals.

Q. And your Federation wanted to buy coal at a better price than other wholesalers were getting, and to that they would not agree. You say that is wrong? A. Yes.

Q. And you intimated that unless they would agree to your terms you would go into the coal business yourself. You could not come to terms and you went in? A. They had their own wholesale agencies who sold their coal. Those from whom we had got our coal had passed out of the picture so that our sources were limited to the mines who had their own wholesale organization. I am not blaming them. They wished to sell their coal through those existing agencies and would not sell through Federated Co-operatives.

BY MR. THORVALDSON:

Q. Following up for a moment the subject of coal, do you own 50 per cent of the Hy-Grade Company? A. Fifty per cent.

Q. So that you don't control that company? A. No.

Q. How do you deal with that company -- on any better terms than the other 50 per cent of owners or than the independent trade? A. I cannot give you an answer there.

Q. Will you tell me whether you deal with them on a better price basis than other companies do, their other customers? A. I cannot answer that.

Q. Why can't you? A. The coal is handled by two agencies. Federated Co-operatives is one and the Rosedale Coal Company is the other. One half is marketed through Federated Co-operatives and the other half through the other company, and these two wholesale agencies are on exactly the same basis.

Q. Do you buy your coal from this company or handle on a commission basis? A. We buy it.

Q. There is no doubt that you buy on the same basis exactly as the other customers of Hy-Grade? A. There is only one other customer and that is the Rosedale Company.

Q. Do you get a secret rebate? A. There is no secret rebate of any kind.

Q. Have you any agreements in writing between yourself and the Hy-Grade Company giving you any rebates? A. We have our regular wholesaling contract with the mine, which is the Hy-Grade Coal Mining Company.

Q. And that contract is on the same basis as the Rosedale? A. Yes.

Q. You have consistently claimed exemption from payment of income tax? A. Yes.

Q. Have you claimed that exemption under section 4 (p) of the Income Tax Act or on the Rochdale principles of mutuality, or both? A. Under 4 (p).

Q. So you have relied consistently on 4 (p)?
A. I presume that is fair, yes; section 4 (p).

Q. Do you only finance the operations of your members?
A. Yes.

Q. Do you only finance their operations or do you also trade with them? A. We supply them. We are their agency and we supply them.

Q. Answer my question. Do you or do you not trade with your members? A. No, we do not.

Q. Do you not buy goods and sell to your members? A. We are the agency that secures goods for them and we supply them with those goods.

Q. Do you mind using my terms? Do you or do you not buy goods? A. We buy goods, yes.

Q. And do you or do you not sell goods? A. Do we sell goods? Yes.

Q. And to whom do you sell them -- to your members? There is no difficulty about that? A. Excuse me. You asked me to speak your language. Now I am speaking your language, which is not cooperative language.

Q. My point is this: You do more than finance your members, do you not? A. Yes.

Q. Is there any doubt of that? That is a simple matter. You do more than finance them? A. Yes; we certainly do.

Q. Have you ever been asked to file returns under the Income Tax Act? A. Yes.

Q. And in those returns you have shown profits? Rather, I will use your terms, and say "savings", during the course of this examination. You have shown savings, just as you have shown here, and despite that they have never assessed you? A. No.

Q. And they have known that you traded? A. They had all the information.

Q. They had all the information about how you operated. Have they ever had investigators investigate how you operate? A. It depends upon what you call investigators.

Q. Has the Income Tax Department sent people to your place of business to discuss your business operations, whether

you were operating within section 4 (p)? A. We have had representatives of the Income Tax Department in annually discussing our financial statement and our business.

Q. They have been in to see you? A. Yes.

Q. I presume you have advised the Income Tax Department that your members are neither producers nor consumers -- the members of the Federated Co-operatives? A. Repeat that.

Q. Are your members producers? A. Are the members producers?

Q. Yes. A. Not necessarily.

Q. Within 4 (p) of the Income Tax Act; or are they consumers? A. Mainly consumers.

Q. Are they individuals? A. Our members?

Q. Yes? A. Yes.

Q. Did you not say they were the various cooperative associations? A. Yes.

Q. That is what they are. So that you have no individual members? A. No, no individual members.

Q. The members are the cooperative associations, A. Yes.

Q. How much have you paid in patronage dividends since 1929? Have you a calculation of the total amount paid in patronage dividends? A. I filed that with the Commission yesterday.

Q. Have you got Table "B" before you -- the amended Table "B"? A. Yes.

Q. I think you can get it from the last column giving the allocation to members. Do you see that? A. Yes.

Q. Is that what you have paid in patronage dividends, the sum of those items in that column? A. Yes.

Q. How far down have you paid out patronage dividends in cash? I am not speaking of what has been allocated.

A. Down to 1936.

Q. I have added up to there and I get \$42,992.63. That would be correct if my addition is correct. That is the total amount you have paid since 1929 in patronage dividends? A. That is correct; paid out.

Q. Out of total savings. That would make your total savings, as you call them, approximately \$600,000, namely, \$556,000 total savings as shown in the summary of allocations, and the \$42,000 odd, approximately \$600,000?

A. Oh no; you deduct there.

Q. Oh, that is included in the allocation; I am sorry. So that out of total savings of \$556,000 you have paid out \$42,000 odd in patronage dividends, approximately 8 per cent. That is correct? A. That is correct?

Q. Approximately 8 per cent of the earnings is all that you have paid out in patronage dividends over a period of fifteen years? A. Yes.

Q. On page two of your brief, it you will refer to it, at the end of the first paragraph you have this: "In short, the Rochdale principles were incorporated into the act." Then, towards the end of the second paragraph, you say: "As far as possible the Rochdale principles were incorporated into the charter of the new Co-operative Wholesale Society, now known as Saskatchewan Federated Co-operatives Limited." That is correct? A. Yes.

Q. And it is a fact that you use the term "Rochdale principles" quite frequently throughout the brief. Having used that term, what do you mean by Rochdale principles and what are they, very briefly? What bearing have they on this problem? A. I don't know that I can give all; I would be

an encyclopaedia to remember all those things. However, the principles include one man one vote, a reasonable rate of interest on share capital, participation of members on the basis of volume of business which they have done with the company. Those are some.

Q. May I give some others that are general principles. Is this one of them -- a small group of consumers? Isn't that a part of the basis of the Rochdale principles?

A. Oh no.

Q. Let me say then a group of consumers -- in fairness, producers or consumers. Isn't that one of your fundamental principles? A. I am subject to correction, but I don't think that is customarily looked on as part of the Rochdale principles. The small groups were the people who developed the Rochdale principles but they did not stipulate that it had to be a small group or a group of any size. It was a principle they laid down, not the size of the group.

Q. Did it not begin with either producers or consumers, whether the group be large or small? Put it that way for the moment. A. Yes.

Q. Distribution at cost is another important principle, is it not? A. No.

Q. Isn't that an important Rochdale principle?

A. Not distribution at cost.

Q. Well, what at cost? A. Handling of goods at cost.

Q. Perhaps you are more correct there than I. The next principle on that basis would be that any savings would be paid as patronage dividends? A. Savings would be returned to the members.

Q. In cash? A. I did not say so.

Q. You did not say so, but was not that a fundamental Rochdale principle? A. Certainly it was.

Q. That savings would be returned to the members in cash? A. No, returned to the members.

Q. Returned to the members at any time? A. I think you will find how it is set forth.

Q. According to your definition of the Rochdale principles, it matters not whether these savings are returned within a year or two years or seven years. Is that your view of the matter? A. I would say that was entirely a matter that rested with the members.

Q. And therefore the Rochdale principles could be diluted as anyone might desire. A. Oh no.

Q. Do you distribute at cost or handle goods at cost? A. You should follow my statement through. This amount we show as unallocated reserves was allocated to the members.

Q. Allocated but not paid? A. That is correct.

Q. I think we have that clearly; and, as we said, you have only paid in those fifteen years 8 per cent of the total allocations. You have only paid 8 per cent in cash. Is that correct? A. Yes.

Q. And do you suggest now that you operate completely in accordance with the principles of Rochdale? A. I think so.

Q. You think you do? A. Yes.

Q. Of course, you have read 4 (p)? A. Yes.

Q. Section 4 (p) of the Income Tax Act? A. Yes.

Q. And you know what it says as to cooperative associations consisting of producers or consumers. You know about that? A. Yes.

Q. You also know about the restriction as to associations merely financing their members? A. Yes.

Q. You know 4 (p) quite well? A. Yes; I have been through it.

MR. FRANCIS: I do not think the word "merely" is used.

BY MR. THORVALDSON:

Q. I am sorry about that; financing is the word in 4 (p). And of course you know also about the reference in 4 (p) to the obligation to turn over goods at cost?

A. Yes; I am familiar with it.

Q. You know that it is stated in 4 (p), that you are under an obligation to turn over goods to your members at cost? A. If that is the wording.

Q. That is the wording. I will read it to you: "Purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves." I take it you interpret that "at cost" to be quite fulfilled despite the fact that you do not pay patronage dividends for a period of seven years after the cost is incurred?

A. In reply to that question, I would say that we and also apparently the Income Tax authorities concur.

Q. They have concurred, you say. I am not disagreeing with you; they seem to have. At the top of page three you say: "It has always been assumed that the member associations of the Federation were exempt under the first part of section 4 (p) as long as their non-member business did not exceed 20 per cent of the member business." Why do you put those words there -- "it has always been assumed"?

A. That was the general opinion, by virtue of the fact that the majority had not been assessed for income tax. It must be a statement of fact.

Q. You have not investigated to see how they did business, or do you investigate from time to time to see how your

members do business, whether they comply with section 4 (p) or not? A. In a general way we know that they are doing so, and they are subject to check-up by the Income Tax authorities.

Q. Do your members generally pay patronage dividends, or do they do as you do, mainly allocate them? A. They do both.

Q. Do they pay to a greater or less extent? A. That is a question which it is very difficult to answer. It varies entirely with the different points. At some points they pay half their savings out each year and they may retain the balance for three, four or five or more years. Some have paid out the retained balance at the end of a three-year period.

Q. I suppose it would be fair to say that in general, in the majority of cases, they use most of these tax-exempt savings for expansion instead of paying them out in cash dividend? A. Yes; the people leave them for that purpose.

Q. You have used 90 per cent of your savings for expansion? A. Yes.

Q. On page four you say that the recommendation to pay interest on shares was in general followed by the members. What do you mean by the words "in general"? Were there some exceptions to that? A. Yes.

Q. There were exceptions; and were those associations assessed for income tax? A. I could not answer that.

Q. On page four you refer to "the spirit" of 4 (p). What do you mean by the spirit of 4 (p) -- the Rochdale principles? A. Yes.

Q. You feel, Mr. McKay, generally that the spirit of 4 (p) is that you should only be entitled to exemption if you operate on Rochdale principles. Isn't that why you have

that statement there -- that you feel you are only entitled to tax exemption if you carry on business on the basis of the Rochdale principles, as you call them? A. Yes.

Q. That is why you have that statement there?

A. Yes.

Q. You feel that the spirit of 4 (p) is such as to entitle you to build up a surplus of over half a million while paying no patronage dividends but \$42,000. Do you feel that you are within the spirit of 4 (p) while operating that way? A. Excuse me. It was the spirit of fifty thousand odd that built that up. It was not 4 (p).

Q. This is your brief, however. You take responsibility for it? A. Yes.

Q. And you feel that you are within the spirit of 4 (p), notwithstanding that you have made over half a million and have paid out in patronage dividends only \$42,000. You feel that? A. Yes.

Q. On page five at the bottom of the second paragraph you say: "The association is granted wide ancillary powers in addition to its main objects which usually include rendering services of a pecuniary value to its members." Does that mean services profitable to the members? A. To the advantage of the members.

Q. You think it would be better to say advantage. Do you mind if I use the word "profitable"? A. You can use any word you wish.

Q. Would you agree that was reasonably correct, the use of the word profitable there? A. No.

Q. You think I should say "rendering services which would be a saving to the members"? You think that would be better than to use the word profitable. Have you any particular objection to my using the word profitable, or

would you adopt it as your own? A. I have no objection whatever; you may use any language you choose as far as I am concerned.

Q. After all is said and done, the matter of savings or earnings or profits or surplus is largely a matter of terms, a matter of language, is it not? A. It is largely a matter of principles.

Q. You do not think it is merely a matter of terms, a matter of language? A. No.

Q. On page six, in paragraph two, you say: "The remainder of the surplus shall, subject to the provisions of the by-laws, be divided among the members and patrons in proportion to the volume of business which they have done with the association." What do you mean by "divided" there -- shall be divided among the members? What do you mean by the words "divided among the members"? Do you divide your surplus among your members? A. You have to split them up some way.

Q. You split them up. Do you split them up on your books? A. On our books?

Q. Yes. A. We divide in accordance with the volume of business the members have done with us. We advise the members at the annual meeting, we report to them, and they in turn tell us what they wish to have done with them.

Q. The reason I ask you about dividing is this. Suppose I have an apple and you ask me to divide it between you and me. I cut it in two parts and keep both parts. Is that a perfectly good division? A. It might be from your point of view.

Q. Well, isn't that what you do when you are dividing the surplus? You divide the apple and you keep the whole apple. A. Well, in that case we don't eat the apple. It

is put away so that it is available later on. In your case I imagine you would eat the apple.

Q. But is it right when you speak of dividing the surplus? You divide the apple but you keep both parts, or all of the parts except 8 per cent. A. On instructions, yes.

Q. You take 8 per cent of the apple, and give it to the shareholders in cash? A. Eight per cent may not be right; it depends on the attitude of the members. That might be reduced.

Q. I think the percentage is approximately right. A. You don't get my point. Another year we might make a couple of hundred thousand and they might tell us to keep it, and the 8 per cent might be reduced to 4.

Q. I am talking about what you have done. You have set out fairly well what you have done, have you not? When you pass such a by-law as you refer to there, what happens to the obligation in 4 (p), the obligation to turn over goods at cost? A. Which by-law do you refer to?

Q. You say you allocate your surplus and pay out patronage dividends pursuant to by-laws passed from time to time. A. Yes.

Q. Well, do you agree with me that the obligation to turn over goods to your patrons or members at cost is somewhat diluted? A. No, I don't agree.

Q. Will you look at page seven of the brief, Mr. McKay, in the second paragraph: "That all dividends or any portion of the dividends due to members may be retained for and used for any purpose of the association, and that dividends retained may be paid to members at such time and in such manner as the directors may determine." Do you say that is

in accordance with the Rochdale principles? A. As the clause you are dealing with is out of the Co-operative Associations Act, yes. The Rochdale principles include democratic control, and that merely gives the individual members a right to exercise their democratic control in any way they desire.

Q. Of course, all this is done by the directors; they control the situation? A. No, everything is done by the members. The directors, as pointed out yesterday, would not last very long if they undertook to do all these things and did not do them in accordance with the instructions they received from the members.

Q. Take the next paragraph: "that the scale of dividends due to patrons or members may vary as between the different kinds or classes of commodities purchased by them from or sold by them to the association or services obtained by them from the association, in such proportion as may be determined by the directors." Now, is that in accordance with the Rochdale principles, namely, paying varying patronage dividends based on various commodities?

A. I would say definitely, yes.

Q. And would you say that the next clause is in accordance with the Rochdale principles. It reads: "that the directors may declare that no dividend shall be paid in respect of such commodities or services, or kinds or classes of commodities or services, as the directors may determine." Would you say that is in accordance with the Rochdale principles? A. Very definitely, yes.

Q. And also the next paragraph: "that the scale of patronage dividends paid to members may be higher than that of such dividends paid to patrons." Would you say that was in accordance with the Rochdale principles? A. No.

The following is a list of the names of the persons who have been
 appointed to the various offices of the Board of Directors of the
 City of New York, for the year 1887. The names are given in
 alphabetical order, and the offices to which they are appointed are
 given in parentheses. The names of the persons who have been
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 New York, for the year 1887, are given in alphabetical order, and
 the offices to which they are appointed are given in parentheses.

Q. You would not say that? A. No.

Q. I am glad you agree with me there. A. I don't know of any association that pays a higher rate to patrons than to shareholders.

Q. You have what you call members and patrons?

A. Yes.

Q. Two classes? A. Excuse me. A lot of these questions really deal with local associations, and I want it understood that my replies are really based on the Co-operative Associations Act.

Q. In the second paragraph on page eight, in the third line, you say: "limited returns on capital and the distribution of surplus on a patronage basis have been grafted into the Act...." I suppose you mean, instead of the word distribution, allocation. Would not that be more correct? You do not distribute your savings, do you? That is the very thing you do not do. Isn't that right?

A. What is the legal definition of distribution?

Q. I am giving you an opportunity to correct what I think is an error in your brief. A. I don't think it is.

Q. Do you distribute your surplus? A. What is distribution?

Q. I think it has reference to something that you distribute and actually hand out to the members. A. I contend that if it is earmarked to the members it is also distributed.

Q. Then you say that to distribute means the same as to allocate? A. Pretty much.

Q. Does it mean exactly the same or pretty much the same? A. I would not want to go that far.

Q. But you think that distribution here means the same as allocation? A. Yes; I would say it is pretty much the same.

Q. And you use the word distribution there despite the fact that your by-laws contain the provision that there shall be no distribution for seven years. Your by-laws provide that there shall be no actual cash disbursements until seven years after the saving has been earned. Is that right? A. No; that is incorrect.

Q. Do you not say that in your brief? A. We have no such by-law.

Q. I will come to that later. I think it is here. A. This is the local association. If you want to direct a question to the Federated --

Q. I am directing this question to the Federation. It is true you have a by-law of the Federation. You referred to the seven-year revolving-door plan yesterday. A. No. There is no by-law with reference to seven years. The duration depends entirely upon the shareholders, upon the members. It can be seven years or seventy years.

Q. But in any event it is true that this is the year 1945 and the last allocation that you have made, that is the last payment of dividend that you have made to your members, was in 1936, was it not? A. Yes.

Q. That is, nine years ago? A. Yes.

Q. Your earnings made nine years ago are now being paid in 1945, or were paid in 1944? A. No. They were paid out in 1942. Nothing has been paid in 1943 or 1944.

Q. Nothing has been paid, no earnings have been paid, since 1936. The 1937 earnings have not been paid out? A. No; that is right.

Q. May I refer you to page eight, just as a matter of words, because words seem to be important in this. On page eight in the second paragraph you say: "In other words, associations under the Act are simply convenient agencies

by which groups of people in the province of Saskatchewan supply themselves with goods or services on a cooperative basis." Would you mind if I suggested that instead of "convenient agencies" you insert the words "corporate bodies by which groups of people", and so on. You would not object to that, would you? Would not that be a little more correct than to say that the associations are simply convenient agencies? A. The brief was approved by the Board of the Federated Co-operatives and I would be reluctant to agree to that change.

Q. Are they not corporate bodies? A. Yes.

Q. That is true, is it not? A. Yes.

Q. So that it would be just as correct to say that they are corporate bodies rather than convenient agencies?

A. I would not agree to that.

Q. Will you refer to page ten, the middle of the page. I wish to read this to you -- you were talking about the right which your Board has to deal with the distribution of surplus. You say, with respect to the distribution of surplus, that the by-laws provide "that the Board may determine the manner and time of payment of such surplus and may retain the whole or any part thereof to assist in adjusting from time to time the amount contributed by each of such members and the members thereof to the funds of the Federation to provide the working capital thereof, on such basis as the Board shall deem just and equitable." Do you see anything in that clause which would put you within the obligation provided in section 4 (p)? In other words, is it not a fact that your Board may determine exactly what they do with the surplus? Your Board do determine exactly what they do with the surplus? A. No; that is not correct.

Q. Isn't it correct? A. No; that is not correct.

Q. Well, is this section in your brief not correct? Is there any error in that part of your brief? That is what I want to know. A. That is the by-law; that is the provision in the by-law.

Q. That is the by-law and it seems to be very clear that the Board is in complete control of what is done with the surplus. Isn't that so? A. Yes; but who are the Board?

Q. Yes; who are the Board? I suppose you have a Board of Directors? A. Yes, and responsible too.

Q. In connection with your subsidiary Consumers Co-operative Refineries Limited, how is that owned?

A. Exactly the same way as the Federation, owned by the local people through their local cooperative associations.

Q. Who holds the stock? Is there share capital, or is the stock in the form of membership? A. There is share capital and there are deferred dividends as with the Federation.

Q. Let us deal with the share capital. You say there is share capital? A. Yes.

Q. Who owns the share capital in Consumers Refineries Limited? A. The Federated Co-operatives.

Q. So that your associations are not owners of that capital? A. The associations own the shares in Federated Co-operatives.

Q. The Federated Co-operatives own all the stock in Consumers Co-operative Refineries Limited? A. Yes; but who are Federated Co-operatives? It is the local associations, who in turn are local members.

Q. Will you answer that one question. Is it not a fact that all the stock of Consumers Co-operative Refineries

Limited is owned by one entity, namely, your Federated Co-operatives? That is correct? A. Yes.

Q. There is no doubt of that. They are the Consumers Co-operative Refineries Limited and they have no members -- just one member. That is right, is it not? A. They have sixteen members.

Q. Who are the sixteen? A. Sixteen directors of the Federation.

Q. The sixteen directors of the Federation only hold the stock in trust for the Federation? A. Yes.

Q. And they are not the consumers, are they, your sixteen directors? A. Oh yes, they are.

Q. They are not the only consumers of the Refineries? A. No.

Q. There is no doubt of course that all the stock is owned by one member, just by the Federated. Turn to page eleven, at the middle of the page. You refer to representations made at one time to the Income Tax Department when that company asked to be exempt from income tax. You say: "As the refinery was a new type of endeavour, involving processing, the income tax officials at first contended that it was liable to pay tax. Submissions were made on behalf of the refinery including the following: (a) That it was a farmers' cooperative within the meaning of section 4 (p)." What do you mean by that is this, that at the time these representations were made the Consumers' Refinery was owned by the farmers. That is right? A. Owned by the farmers, farmers' cooperatives.

Q. Owned by various members anyway. It was not under sole control as it is now? A. Not exactly the same type of control as there is today.

Q. Originally, as I understand, was not the Refinery owned by individuals and taken over by you later? A. No.

Q. It has been owned by you all the time? A. It was owned by cooperative associations largely all the time. There were some independent shareholders in the initial stages who were subsequently purchased out.

Q. So that it was owned originally by individuals and cooperative associations. A. The same exactly today, only the cooperative is slightly changed.

Q. I don't understand that. Was not the stock in the Consumers Refineries at one time owned by individuals, whereas now it is all owned by the Federated Co-operatives? A. Legal ownership, yes.

Q. The legal ownership is now in the Federated Co-operatives, but at one time, when these representations were made, to which you refer in sub-paragraph (a) of the second paragraph on page eleven, the ownership of the stock in the refineries was in the hands of individuals and co-operatives? A. That is correct.

Q. So that there was a change later? A. Yes.

Q. And now will you look at sub-paragraph (d) on page twelve: "That the Refinery was an association owned or controlled by cooperative associations and was organized for the purpose of financing their operations." What do you mean by that?

MR. FRANCIS: The witness does not say this. This is simply a report for the benefit of the Commission. These submissions were not made by the witness.

THE CHAIRMAN: It is contained in the brief and he is under cross-examination. Mr. McKay will say whether he knows.

MR. FRANCIS: It is not correct to say that Mr. McKay

says this. He says that these statements were made.

THE CHAIRMAN: Mr. McKay is able to take care of that.

BY MR. THORVALDSON:

Q. Were these representations made? A. These representations were made to the Income Tax Department, and with your permission Mr. Chairman, I would like to read the reply from the Department.

THE CHAIRMAN: You may do so.

MR. THORVALDSON: What is the date of the reply?

THE WITNESS: August 4, 1938.

(The witness read the letter)

BY MR. THORVALDSON:

Q. That was done on the basis of these representations?
A. Yes.

Q. And apparently it was represented that the Consumers Refineries was organized for the purpose of financing their operations? A. That is one of the arguments.

Q. Is that a true statement? Was not the Consumers Refineries organized for the purpose of refining oil and selling the product? A. It was primarily organized for refining, and in the refining process of necessity it had to be financed to a great extent.

Q. Why "of necessity"? A. To carry the inventories and the obligations that were entailed.

Q. Is it always necessary for a wholesale concern or a refinery to finance their buyers? Why did this not state that the purpose of the refinery was to refine and sell oil?
A. I did not prepare it. I imagine the idea is to put all available arguments before the Income Tax authorities.

Q. Will you agree with me that sub-paragraph (4) on page twelve is not a completely true statement? A. No, I would not.

Q. You still maintain that it was organized for the purpose of financing their operations? A. As one of its functions.

Q. And also to refine and sell. In the middle of the page we come to the change-over which we were discussing a moment ago: "The shares of the refinery, previously held by local associations, have been acquired by the Federation which controls the Refinery and is itself, as before explained, controlled by the member associations." So that there is no doubt there was a change after 1938? A. Yes.

Q. That change occurred after these representations had been made to the Income Tax Department. A. Oh yes, certainly.

Q. Did you advise the Income Tax Department as to change of ownership? A. The Income Tax Department had not been advised.

Q. You say that in 1938 you made representations to the Income Tax Department for exemption on certain grounds, one of which was that it was a farmers' cooperative within the meaning of the section. Another one was that it was for the purpose of financing their operations, and after 1938 there was a complete change in ownership, and you say you did not advise the department about that change? A. Complete returns will be furnished the department and they will take whatever action they deem right.

Q. The income tax returns say nothing as to ownership. A. The ownership is the same still, vested in exactly the same people as it was before, only in a little more circuitous manner.

Q. Is this statement on page twelve not correct: "The shares of the refinery, previously held by local

associations, have been acquired by the Federation which controls the Refinery and is itself, as explained before, controlled by the member associations." Is that correct or incorrect? A. That is correct.

Q. And there has been a change, has there not?

A. There has been, yes.

Q. And since that change, despite the fact that you secured income tax exemption on a different type of organization, entirely on a different basis, nevertheless you have made no representations to the Income Tax Department as to the change. There is no great difficulty in saying yes or no to that question? A. No. The Income Tax Department may or may not know of the change. There has been really no change; all that is changed is the actual ownership of the shares, but that is only a very small portion of the capital in the organization. The balance consists of equities held by the member associations.

Q. It is not a correct statement, then, that the Federation controls the Refinery? A. It controls the shares.

Q. You say here it controls the Refinery. A. Yes.

Q. There is no doubt the Federation controls it.

A. Yes.

Q. I think that is sufficient on that. Now we come to the Consumers Co-operative Mills Limited, which was organized for the purpose of operating milling facilities. Who owns Consumers Co-operative Mills Limited? A. The Federated Co-operatives.

Q. You own all the stock and that is held exactly in the same way as the refinery? A. Yes.

Q. So of course it has no members or consumer shareholders? A. Not directly.

Q. The same exactly applies to Inter-provincial Co-operators Limited. That company has no members or consumers, individual members or consumers. You own all the stock -- that is, Federated Co-operatives? A. Yes.

Q. Have these companies been exempt from income tax? A. Consumers Co-operative Mills so far has. Inter-provincial Co-operatives made no incomes and so consequently there was no question there. National Co-operatives and Farm Machinery Co-operatives are American companies and I am not in a position to say just what happened there.

Q. You don't know whether National Co-operatives or Farm Machinery Co-operatives paid taxes? A. I don't think they did, but I don't know.

Q. But they are owned completely by Federated Co-operatives? A. By Federated Co-operatives and other co-operatives.

Q. Yes; that is right. Now will you look at Table "B". You have there what you call a twine reserve of \$12,500. Have the Income Tax authorities, in connection with all these reserves, ever had a word to say about the building up of these reserves? A. We have not been assessed for income tax.

Q. And as a result of that you can build up any reserves you like, whether they be depreciation or anything else, without any interference from the Income Tax Department? A. No; that is not correct.

Q. That is not true? A. That was a justifiable reserve.

Q. Answer my question. I will come to the question of reserves in a minute; but does the Income Tax Department interfere in the slightest with any of your reserves?

Does it interfere with the manner in which any of your reserves are built up or allocated? A. The Income Tax authorities check very carefully into everything and I am quite satisfied that if they found something that was in contravention of what they regarded as fit and proper they would check us up, and check us mighty quick.

Q. Why should they check you on a reserve? Why should they bother to check you on reserves? You are exempt from income tax, are you not? A. Yes, we have been.

Q. So why do you make the statement that you think the Income Tax Department would check you severely on reserves? A. Because they are interested enough to come into the office and check anyhow.

Q. But they are not interested in any reserves you build up. You are tax exempt. A. Why do they come and check, then? Excuse me for asking you a question.

Q. Do they come to check your reserves? A. I don't know. They go through the records anyhow.

Q. Will you explain that binder twine reserve and the \$12,000. What is that for? What is it a reserve against? A. Against an emergency. That was money made on a carry-over on twine due to price. If the price goes up it is to be assumed that sooner or later it will come down, and that was not an ordinary savings made in the operations of the business but something special that would be required, in the opinion of the Board, to take care of the slump that will come. It was considered good business to set it aside.

Q. As a particular reserve for a particular commodity? Why do you say it is something special? A. At that particular time that was about the only merchandise we were carrying for the service of our people. We made money owing

to having a carry-over.

Q. When did you make that money on binder twine?

A. It is a carry-over from 1940.

Q. You were selling all kinds of other goods in 1940.

A. Yes.

Q. Whom is that \$12,000 intended to benefit -- your associations? A. Yes.

Q. Are you sure of that? A. Absolutely.

Q. Why isn't that in the general reserve? Why is that binder twine in a reserve all by itself? Does that benefit exactly the same people as your allocation to members, \$418,000? A. In a general way, yes.

Q. Why do you say in a general way? A. It is impossible to follow everything back to some individual or organization, so that in the case of any unallocated surplus, while it could be followed it would involve a lot of unnecessary work.

Q. I suggest it would be a lot easier if you were entirely frank on this and state the reason. I will give you the reason. Is not the reason this, that you deal in binder twine with people who are not your members at all?

A. To some extent.

Q. To what extent? A. A limited extent. I gave figures yesterday of the total volume of business with non-members, around 4 per cent.

Q. And part of that was binder twine? A. Yes.

Q. Are you sure that binder twine business is only 4 per cent? A. Absolutely.

Q. You deal with elevator agents? A. We have a number of elevator agents, yes.

Q. Are they your members? A. No.

Q. Why did you not say that right at the start? You

knew that was what I was driving at.' A. No.

Q. And this reserve of \$12,500 was not for elevator agents who are not members? A. No, no.

Q. Isn't that exactly the reason why you have that reserve of \$12,500, because you sell a lot of binder twine to elevator agents who are not members of your association, and you say there have been unusual profits on the binder twine, which really belong partly at least to these elevator agents who are not members. Isn't that the explanation of this reserve of \$12,500? A. No, absolutely not. I am sorry I cannot give the information and I would like to have an opportunity to get the figures, but the amount of binder twine sold through these men you mention was very small.

Q. You cannot make a guess? A. No.

Q. And you say that is not the reason for the special reserve? A. No. I was a little confused there. During the early years we had a lot of business through these pool elevator agents, but today most of those points have organized cooperative organizations so that the amount of binder twine or any other commodity which we sell other than true cooperatives is very small.

Q. While we are on the 4 per cent, I take it that 4 per cent includes all the business. When you say 4.3 per cent of non-member business, I presume I can take it for granted that covers both Federated Co-operatives and the subsidiaries? A. That is not right.

Q. Can you give me any figure on non-member business for the Federated Co-operatives and all the subsidiaries?

A. Yes, 9.62.

Q. 9.62? A. Excuse me; that is only the figure for the Federated Co-operatives including the mill. The Federated Co-operatives include the mill and the refinery. I have not

got that, but that would be much lower than 9 per cent.

Q. What is the 9 per cent? Will you make clear what the 9 per cent of non-member business is. A. In the operations of the mill there has been a substantial percentage of the business with the British Ministry of Food, a lot of export flour, and that increases the percentage of non-member business. That is responsible alone for the increase in non-member business -- the flour milled for the British Ministry.

Q. So when you refer to non-member business of 4.3, that is not correct. Does that include the mill? A. No.

Q. The mill exports a lot of flour overseas?
A. That is correct.

Q. Very considerable quantities of its products?
A. Yes.

Q. And of course the mill was built for the purpose of providing your associations with flour? A. Purchased for that purpose.

Q. We will come to the mill later on. Anyway, including that you say your non-member business is nine point something? A. That is the Federated Co-operatives including the mill but not including the refinery. Were the refinery included, the percentage would be probably five and a half or thereabouts. That is a guess, but we can get these figures.

Q. You say that in 1940 you stopped paying interest on share capital? A. Yes.

Q. And up to that you paid about \$18,000? A. Yes.

Q. You stopped because you were told that if you continued to do so you would not be tax exempt?
A. Absolutely not.

Q. I thought that was what you said. So it did not matter as to your tax exemption whether you paid interest on capital or not? A. Yes, it might have.

Q. Let us clear that up. What is the situation as to the payment of interest on capital? Why did you stop in 1940? A. We paid interest on share capital when the share capital was furnished by the members, on a not altogether equitable basis. Once we developed equitable financing, that is with the members financing the organization to the extent that they used the facilities, their capital related to their purchases, then payment of interest went by the board and it was simply transferring the same amount of money from one pocket to the other; so whether we paid interest or did not pay interest, the same results in the individual cases were achieved. So naturally, to get away from accounting and what-have-you, and to satisfy that point, we ceased paying interest.

Q. So it had nothing to do with tax liability?

A. Not of necessity. It would have been done anyhow.

Q. On page fifteen you say: "The Federation has been mainly financed and its growth made possible by the member associations agreeing to leave their savings with the organization for the purpose of providing the finance necessary to furnish additional services which they desired." That appears at the top of page fifteen. You say this was possible "by the member associations agreeing to leave their savings with the organization." Is that right? Did they all agree? Have the member associations been unanimous on the point, or is that matter decided by the majority?

A. It is decided by the majority.

Q. According to perfectly sound Rochdale principles?

A. Perfectly democratic.

Q. And also in accordance with Rochdale principles?

A. Yes.

Q. If any association does not agree, if any association wants its money, what happens? A. I could not tell you; they have not wanted it yet.

Q. And of course, if they did want their money, you have used all these earnings and savings for expansion?

A. It would depend entirely upon the circumstances that would happen.

Q. But actually now, speaking of the allocations to members of \$482,000, substantially all that has been used in purchasing a building, putting up your various subsidiaries, and so on, has it not? Substantially all your reserves, your allocations or reserves for bad debts and other reserves, allocations to members, \$556,000 -- substantially, that has all been used for expansion, has it not?

A. Not expansion of the subsidiaries.

Q. No, but for expansion of the Federated Co-operatives by the purchase of subsidiaries, by financing subsidiaries, and so on? A. No, excuse me.

Q. Have you approximately half a million dollars in the bank? A. Not half a million.

Q. You borrow from the bank? A. Quite frequently.

Q. You use that half million in your business anyway? A. Yes.

Q. On page fifteen you refer to two kinds of membership, do you not -- in the middle of the page. You say: "The by-laws were subsequently amended to provide for large cooperatives to hold up to \$1,000 in share capital." That is correct? A. Yes.

Q. So that gives you two kinds of membership? A. No.

Q. Why do you refer to large cooperatives? There must be one type comprising large cooperatives, and another type comprising small cooperatives. Are there? A. No. There are graduations, but that was the first attempt to have the cooperative members carry their fair share of the burden of finance. Previously \$500 was the limit. It was considered unfair that a small association should be required to put up \$500 while a large organization would get away with \$500. That was the first step towards providing equitable finance.

Q. But you did compel certain organizations which you considered large cooperatives to hold up to \$1,000?

A. I don't like that word compel.

Q. Well, you did provide that in your by-laws. A. They told us what they wanted us to do and we did it.

Q. But that was done? A. Oh yes.

Q. And that is a different type of membership from the small cooperative. There was some difference anyway?

A. The only difference was in the amount they were required to put in.

Q. It is true that some had \$5,000 worth of stock and others did not have to pay that much? A. Yes.

Q. And you feel you are still within the Rochdale principles? A. Yes.

Q. On page sixteen in the fourth paragraph I see something about which I would like to ask you a question or two. You say: "At the 1943 annual meeting the delegates unanimously decided that in view of improved economic conditions savings accruing to the members could be used to good advantage and should be retained for expansion of services to member associations." I refer to that expression "expansion of services." Can a private business expand services

during war time to any extent? A. To some extent it can.

Q. How? A. Exactly as a cooperative.

Q. What about war-time controls? Aren't there war-time controls? A. We are subject to the same.

Q. Are you subject to them? A. Yes.

Q. Do war-time controls apply to you? A. I beg your pardon?

Q. Do war-time controls that are within the Income Tax Act apply to you? You know the various war-time controls such as those with respect to advertising expenditures and depreciation reserves which apply to ordinary corporations. Do they apply to you as a cooperative? A. That is a question.

Q. You know they don't. A. I imagine they would check up on us. We don't spend money on advertising, or little at any rate.

Q. They have never checked on you in regard to your advertising expenditures? A. No, they have no need to; we don't spend any.

Q. But they never have? A. No.

Q. In connection with the sale of binder twine, who keeps the retail profit on the twine -- the elevator agents? A. I can't answer that question. In most instances I presume they do.

Q. What happens to your profits on the twine business? I suppose it will be all right to call that "profits" now, so far as the twine business is concerned? A. We admit that is non-member business. In the brief we deal specifically with non-member business.

Q. And you agree that is profit? A. Yes.

Q. And the profit you have had, or the savings you

have made on the twine business -- you agree that is profit?

A. We have conceded that point, yes.

Q. Have you ever had any interest on capital or otherwise, or have you ever had any revenue from the Hy-Grade Coal Company? A. No.

Q. You say the Hy-Grade Coal Company has no income tax because it has not made profits? A. Yes.

Q. Was it making profits at the time you took it over or prior to that time? A. Sometimes.

Q. You pay regular prices for your coal? A. Possibly the mine may have been sold to us in anticipation of not making profits; in other words, it was not a very "hot" proposition. Put it that way.

Q. That is, when you went there? A. Yes.

Q. You don't control this company? Do you control the Hy-Grade Company? A. Not greatly.

Q. Have you a majority on the Board of Directors? A. Yes.

Q. So that by virtue of the majority you have on the Board of Directors you can obviously arrange to buy your coal from that company and deplete the profits of that company to the vanishing point? A. No.

Q. Can you not? A. No.

Q. Why? A. Because we only own one half of the shares and can be outvoted by the other half, by two men on the Board.

Q. Can you be outvoted by 50 per cent? A. No; we can have a deadlock.

BY MR. NADEAU:

Q. Who owns the other 50 per cent? A. Major Macdonald was one of the original owners of the mine.

Q. He is still the owner of 50 per cent? A. Yes.

Q. Is he interested in your cooperatives? A. Not directly.

Q. Indirectly? A. The same as anyone else. In the abstract he is interested, but not in any other way.

Q. How do you explain that? A. From the philosophical angle he is interested in the cooperative movement. We are good personal friends and he takes an interest in the movement, but he gains nothing by his interest.

BY MR. THORVALDSON:

Q. Mr. Macdonald is part of the cooperative movement, is he not? A. No.

Q. Where does he live? A. Vancouver.

Q. And he owns 50 per cent? A. Yes.

Q. Is he a member of the Federation? A. No.

Q. He is friendly to you? A. Yes.

Q. And he allows the Federated Co-operatives to have control of the company? A. No.

Q. Does he interfere in the management of the company? A. Oh yes; he is the manager.

Q. And he still gives you the majority on the Board of Directors? A. Yes.

Q. What connection has he with the Rosedale Coal Company? A. He has the selling agency.

Q. What connection has he with that company? A. It is the company he is the main stockholder of.

BY MR. NADEAU:

Q. Is there a voting agreement between Mr. Macdonald and your directors, a voting pool agreement? A. We never had the slightest difficulty. He controls half the shares and we have half the shares. We could have a deadlock at any time but I don't anticipate it.

BY MR. THORVALDSON:

Q. Have you some agreements on the basis of which you do business with the Hy-Grade Coal Company? A. Yes.

Q. Would you be willing to file these? A. I will file these with the Commission, yes.

Q. I wish to ask you a question with regard to something on page eighteen about the two kinds of cooperatives that are associated with your Federated Co-operatives. I refer you to the second last paragraph on that page, where you say: "The membership of the Federation is comprised of two distinct types of cooperative association, in so far as the organizational set-up is concerned, but both types adhere to recognized cooperative business practices and principles. All of the members are cooperative associations organized under the Co-operative Associations Act of the province of Saskatchewan. One group operates on a wholly autonomous basis with the conduct and control entirely within the group....." What do you mean by that -- one group? Do I understand that they are all just individual societies that are completely controlled by the group? A. Yes.

Q. What is the difference between that and what you call the affiliates of the Federation? That is the second group. What is the organization of the affiliates? A. They are organized in exactly the same way, only they delegate certain functions to the Federation.

Q. Does that make them any less a pure cooperative? Just what functions do they delegate to you? A. Generally, the supervision of the business, the accounting.

Q. Is that the only thing? A. Yes.

Q. You just send your auditors there? A. Yes.

Q. Surely that does not make them a different group?

A. We treat them as different.

Q. Is it not a fact that they are under your control and domination? A. No; the reverse is the case.

Q. You say the second group is only referred to as affiliates of the Federation under agreement. What does that agreement provide? Would you mind filing that agreement? A. I have no objection.

Q. You will file it? A. Yes.

BY MR. NADEAU:

Q. Are these affiliate members shareholders? A. Yes.

Q. How many shares are issued to your members?

A. Each member organization, be it affiliate or autonomous, owns one \$100 share in the Federation.

Q. Are all your shares issued? A. There is one share for each association. We had 441. Probably that has increased now, but at March 31, 1944, we had 441 associations in the membership, each holding one share, so that we have 441 shares issued.

Q. Does that include affiliations? A. Yes.

BY MR. THORVALDSON:

Q. On page nineteen you refer to certain weaknesses that had previously been apparent in the wholly autonomous associations. What weaknesses do you refer to? A. Just where is that?

Q. At the top of page nineteen, in the fourth line.
A. Weaknesses?

Q. Yes. A. Poor management which resulted in the extension of credit and, in a good many cases, unfortunately resulted in failures. That was the prime purpose of that set-up.

Q. Have you put your own managers in charge of any of these? A. Of the affiliates?

Q. Yes. A. No, but we try to get them proper managers to assist them. We don't directly appoint these managers, however.

BY MR. ARNASON:

Q. They are appointed by the Board? A. Yes.

BY MR. THORVALDSON:

Q. In connection with the Consumers Co-operative Mills, when did you say you organized this concern -- in 1939?

A. 1939, I think.

Q. And the purpose of this company is to mill flour for your cooperatives? A. Yes.

Q. That was the original purpose? A. Yes.

Q. You told us that since the war began this company had exported flour to other countries in the last few years. A. Yes.

Q. How much of the business of Consumer Co-operative Mills consisted of the export of flour overseas during 1944? A. I haven't got that information definitely but I can get it; possibly 40 per cent.

Q. In 1943 approximately what proportion of its business was overseas? A. I presume about the same.

Q. And 1942? A. You are getting farther back there.

Q. Well, approximately? A. Very little that year.

Q. Very little difference or very little? A. Very little during 1943 and 1944.

Q. Do you still claim to be a cooperative within section 4 (p)? Does that company still claim to be exempt under that section? A. The Income Tax Authorities have been good enough to consider it that way.

Q. On what basis have they done that -- on the basis that you have not told them you did 40 per cent non-member business? Have you told them that? Do they know it?

A. Excuse me there. Do you imply that the 40 per cent should be carried down to the individual? We take it the other way is correct.

Q. I do not care how you take it; I want the facts. You say that there was 40 per cent of overseas business in 1943 and 1944, or approximately 40 per cent of the total business of the company? A. Yes.

Q. And despite the fact that you were doing 40 per cent of non-member business you have still been exempt from income tax. A. I presume 9.64 is the actual percentage of non-member business we have in these two organizations in the activities of Federated Co-operatives. The Refinery did not enter into that.

Q. What you are trying to do is to dilute the 40 per cent by bulking the business of Consumers Co-operative Mills with Federated Co-operatives, which reduces the percentage of 40 down to 9.6 That is where you get the 9.6?

A. That is a statement of fact. If the Income Tax authorities wish to tax Consumers Co-operative Mills, that is their business.

Q. But they have been good enough so far --

A. We have not been taxed so far.

Q. Has the Consumers Co-operative Mills filed income tax returns? A. Yes.

Q. For these years? A. Yes.

Q. And you have not been assessed? A. Not yet. We are keeping our fingers crossed.

Q. Perhaps you had better continue to keep them crossed. Now besides your overseas business, has Consumers Co-operatives Mills done any other non-member business?

A. In flour I would say no. I can't give figures but

but possibly there has been some small amount and that is all included in the non-member business. There was some amount of feed shipped to Ontario but it is included in the non-member business.

Q. Is that included in the 40 per cent? A. Yes.

Q. Do I take it that the 40 per cent is all non-member business? A. Yes.

Q. Have you filed financial statements with the Commission in respect of the subsidiaries? A. No, I have not.

Q. Will you do so? A. Yes. We have only the financial statement for the year 1944. You asked for one and we intend to file one.

Q. What is the approximate volume of business of Consumers Co-operatives Mills in 1944? A. \$445,000 or thereabouts.

Q. And 1943 about the same? A. No -- wait a minute; excuse me. I need to do a little addition. About \$340,000 last year, I would say, and approximately the same in 1943.

Q. On the 40 per cent non-member business are there any savings? A. I presume the Income Tax authorities may look into that.

Q. Are there profits on that business? A. We have admitted that on the earnings of non-member business there may be a profit, but there is mighty little profit if you deal with the Ministry of Food.

Q. I am not talking about whether it is large or small, but is there a profit on the 40 per cent? A. There might be.

Q. Might there be a loss on it? A. There might be.

Q. So that at least there might be a profit or a loss?

A. Yes.

Q. We do know that the milling business is a very profitable one at the present time. That is a fact?

A. We have yet to find it out.

Q. I did not think there was any doubt about that. At any rate, if a saving is made in that 40 per cent non-member business, to whom does that go? A. I presume it should go to cover up losses we have made, but if profits were made, I presume it would go to the patrons.

Q. Your patrons or members get that profit? A. Yes.

Q. Do you call that a saving? A. No.

Q. You call it a profit? A. Yes.

Q. So that your patrons or members will get a substantial profit if you earn one? A. If we earn one.

Q. There has been substantial business? A. Yes.

Q. And if there is a profit they will get the profit on that business? A. If there is, but there has not been.

Q. But if there is? A. If there is, yes.

BY MR. NADEAU:

Q. Have you patrons' reserve in your financial statement? A. No.

BY MR. THORVALDSON:

Q. While on the non-member business, what about the refinery? Do they do much non-member business? A. I doubt if they do any.

Q. Do the refineries sell gasoline to the Government -- to the Air Force or the Army? A. I don't think so.

Q. Are you sure of that? A. The Government?

Q. Don't you supply any Government account with oil or gasoline or oil products? A. I am not prepared to stand 100 per cent behind this, but my belief is that any of that

business, Government or Air Force, is taken care of by the local cooperative association in the town nearest to the point where the commodity is required.

Q. So that your local associations do do business?

A. Some of them do.

Q. With the Government? A. Yes.

Q. And of course the Government is not a member of the association? A. Not to my knowledge.

Q. That would be entirely non-member? A. It would look that way, yes.

Q. And as a matter of fact, in connection with the refineries, if I pull up my car to your oil pumps do you sell me gasoline or oil? A. No, we don't.

Q. You refuse to do so? A. We don't fill cars.

Q. Can you give us the percentage of non-member business of the oil company, the refinery? A. I am sorry I cannot, but I think the percentage would be almost 100 of member business.

Q. You mean that the refinery does not deal with anyone except members? A. No.

Q. Did you recently buy the Empire Collieries in Alberta? A. Yes.

Q. Did you buy it outright? A. Yes.

Q. Is that a subsidiary? A. Not yet.

Q. You are in process of incorporating it? A. It was purchased by Federated Co-operatives.

Q. With the reserves that you have. How do you operate the Empire Collieries? Do you own it exclusively yourselves? A. Yes.

Q. Empire Collieries is a coal mine? A. Empire Collieries was the name of the company.

Q. Did you acquire all the stock? A... We acquired that in liquidation so that it is not one of the money-making businesses we should pay income tax on. We purchased it from the liquidator. We purchased no shares but the assets of the company.

Q. When was that transaction concluded? A. Legally on November 30.

Q. Last year? A. Yes.

Q. So you had just started to operate that business? A. Yes.

Q. And this company is going to sell coal to you, as well as Hy-Grade? A. We own that company.

Q. You own Empire Collieries? A. We own the Empire mine.

Q. You intend to operate that mine? A. Yes.

Q. So you have had no profits on that venture yet? A. And nobody else had when it went into liquidation.

Q. But you have not had any profits on that? A. No.

Q. Now, in connection with Hy-Grade Coal Company, I would like to ask you one more question. You say you own 50 per cent. Of course, that company does a lot of non-member business? A. Yes.

Q. There, of course, you are in partnership with the ordinary individual, with the private individual. Have you ever considered the problem of non-member business there?

A. Non-member business does not enter into it. We are doing business as a straight joint stock company subject to all the regulations that govern a joint stock company.

Q. That company is not a cooperative? A. No.

Q. It is an ordinary joint stock company? A. Yes.

Q. Now, you had some transactions with the Arcadia Coal Mining Company? A. Yes.

Q. You advanced that company some money? You financed the operations of that company? A. Yes, indirectly.

Q. For how many years have you been financing their operations? A. Better than one year.

Q. And the extent of your advances is fairly large, I presume? Do you get interest on the loans you make to the company? Do you charge interest on your loans to that company? A. Yes.

Q. You have revenue from such loans, have you not? A. That is a question to which I am sorry I cannot answer yes or no.

Q. I want to know, do you charge interest on your loans to Arcadia Coal Mines? A. Again I say I cannot answer that without qualifying it.

Q. All right, qualify it. A. We made loans to Arcadia Coal Mines Limited and in return we were given title to certain property. We get revenues from that property but the original owner has the right to redeem. He has an option on that to repurchase the property and in the event of his doing so he will pay interest on the total amount.

THE CHAIRMAN: Is that a loan?

THE WITNESS: No; it was straight.

THE CHAIRMAN: It is a sale with a right of redemption?

THE WITNESS: He sold the property to us with right of redemption.

BY MR. THORVALDSON:

Q. And at the present time you get a rental revenue from that property? A. Yes.

Q. Is that a saving? A. In the event that the option is taken up it will all have to be accounted for other than interest on the money.

Q. You say you do get rental on some property? A. Yes.

Q. Is that a saving or profit? A. It depends on how ultimately it is accounted for.

Q. To whom? A. To the party holding the option to repurchase.

Q. But you don't put the rentals you get into your general account? You are not going to pay those rentals back later on to anybody? You receive the rentals and put them in what account? A. There is a special account. These are accountable in the event the option is exercised.

Q. Accountable to whom? A. To the owner.

Q. Do you pay the rentals back to the owner in case the option is exercised? A. Yes. All he has to pay us is interest on the amount involved within the period of the option.

Q. But he does pay you interest? A. He will pay interest.

Q. On fifty thousand more or less? A. Less.

Q. Much less? A. Slightly in excess of thirty.

Q. You get interest at any rate? A. Yes.

Q. And is that a saving? A. I would say so, yes.

Q. A saving on what -- on purchases? A. On service that we have provided.

Q. Isn't that an out and out profit in the same way as if I or you or a bank loaned money? Why not be frank about it? You still say that is a saving? A. Yes. I will qualify that. Were it not for the coal that we expect to get from the mine we certainly would not invest money in that at all.

THE CHAIRMAN: What do you do with this saving that Mr. Thorvaldson calls a profit?

THE WITNESS: That belongs to the members.

THE CHAIRMAN: Dealt with in the same way as the other surplus?

THE WITNESS: Yes.

BY MR. THORVALDSON:

Q. You have some Victory Bonds? A. Yes.

Q. You get interest on those? A. Yes.

Q. Is that a saving? A. Yes.

Q. Does the interest you get on those, does the revenue from that source, result from business done with your members? A. With your permission, that question was asked last night by Mr. Parker and I would like to read something to show exactly what we think of this. May I do so, Mr. Chairman?

THE CHAIRMAN: Yes.

THE WITNESS: I have here the following statement:

"Re: Income from Victory Bonds: All funds at the disposal of the Federation are the property of the members and under ordinary circumstances no surplus funds would be available for investments in the ordinary sense of the term, as when the Federation has adequate capital to finance the activities desired by the members, deferred dividends credited to the members will then be repaid.

"With restrictions now in effect which prohibit expansion of services to any great extent, and in view of the fact that the members decided to leave in their earnings for the purpose of providing future services, the Federation has at its disposal at certain times surplus funds; with the approval of the members and in a desire to help out Canada's war effort Victory Bonds have

been purchased by the Federation, pending the time when the money can be used for the purpose for which it was intended. The Federation acts in the nature of a trustee and any revenue accruing from the investment is the property of the members and should not be taxable in the hands of the Federation."

BY MR. THORVALDSON:

Q. Pure Rochdale principles; is that right? Now what you really mean to say is this -- that because you do not comply with the Rochdale principles and pay your savings to your members in cash, you have invested those so-called savings both in your business and in Victory Bonds and in coal mines, through which you get revenue. That is what you mean to say. Isn't that the fact? A. That is not the fact.

Q. Do you not get revenue from Victory Bonds?

A. Yes.

Q. I think we can leave that. Have you any other miscellaneous earnings except those that have been referred to such as Victory Bonds and interest in connection with the Arcadia Coal Mines? Have you other miscellaneous earnings of that kind? A. No.

Q. None? A. I would not want to say.

Q. Any substantial amount? A. No substantial amount. Put it that way.

Q. Do you make returns to the Income Tax Department showing to whom patronage dividends are paid when you pay them. Are you required to make returns of that kind?

A. I am sorry I cannot answer that. Whether we furnish a statement properly attested in bulk or are required to furnish details, I will not say.

Q. Do you furnish information to the Income Tax Department as to directors' fees paid? A. Yes.

Q. I suppose you pay the directors' fees as a part of the expenses? A. Yes.

Q. One or two more questions and I am through. In connection with the binder twine reserve of \$12,500, I notice that business was done in 1940 and 1941. That is now approximately four or five years ago. That is Table "B" amended. When is that going to be allocated? When are those profits going to be allocated? Have you had any discussions about that or any decision as to when those profits will be allocated? A. They will be allocated when the conditions arise that will require them to be applied for the purpose for which they were set up. In other words, the price of twine may drop this year or the year after and that is the cushion to take care of that abnormal condition.

Q. The price of binder twine has been firm since 1940? A. Yes.

Q. Still this reserve remains unallocated. When you allocate that reserve will part of the allocation go to elevator agents or not? A. That will not be allocated. That is there to take care of the price decline which must come.

Q. Just because there is a price decline, do you suggest that you cannot gauge the market well enough -- that you must have a loss just because there will be price declines? A. Inevitably.

Q. Do you put up a reserve for all commodities against price declines of those commodities? A. No.

Q. Just this one? A. Other than a general reserve.

Q. I ask you once more: When you do allocate this, if you do, will you not allocate some of it to the agents?

A. No.

Q. None of it will go to the agents? A. I made that point clear. There are a handful of agents, ten to fifteen at most, who had nothing to do with that twine at that time.

Q. And you still make the statement that the agents have no interest in the reserve? A. No.

Q. And that is not the reason for it? A. No.

MR. ROBINSON: Mr. Chairman, as representing the Retail Store Merchants of Assiniboia, may I ask the witness a few questions?

THE CHAIRMAN: By all means.

BY MR. ROBINSON:

Q. Mr. McKay, how many retail stores selling ordinary merchandise have your subsidiaries in Saskatchewan?

A. Our subsidiaries? None.

Q. I mean your members? A. How many operate in the province of Saskatchewan?

Q. Yes. A. According to data I have compiled, there are 160 as of December 31, 1944.

Q. As at December 31, 1944? A. Yes.

Q. How many were operating in 1933? A. I can't give that information.

Q. Can you supply the Commission with that information? Will you do so? A. These statistics are available from the Co-operative and Markets Branch. I will supply anything the Commission asks for, but that is all available from the Co-operatives and Markets Branch.

THE CHAIRMAN: Has there been any change in 1944?

THE WITNESS: No.

THE CHAIRMAN: The same number of retail stores?

THE WITNESS: The information given yesterday was that there were 59. We have a record of 34 that were helped in the taking over. Excuse me; 34 was in the first six months. I believe it was 36 for the year, 23 the first six months.

BY MR. ROBINSON:

Q. 36 stores were opened up in 1944? A. Not opened up but taken over from ordinary businesses by the organizations that we were directly connected with.

Q. You supply all the merchandise and goods that are sold in these various stores? A. No.

Q. What percentage of the goods do you supply?
A. At the moment quite a small percentage.

Q. Where do they get the goods -- where is the merchandise they sell? A. Purchased from the sources of supply of the merchants they took over, almost invariably, particularly in rationed goods.

Q. That is to say, from the ordinary wholesalers?
A. Yes.

Q. These cooperative stores in the towns and villages and also in the cities compete directly with the individual merchant. Is that correct? A. They compete.

Q. Directly with the individual merchant. What I mean to say is this. If I go into a cooperative store, I a lawyer, I can buy anything in that store. Is that correct?
A. I would presume so.

Q. Is there any doubt about it? A. I don't run a retail store.

Q. But you have reports from all these retail stores.
A. Yes; I presume that is correct.

Q. Well, there is no doubt it is there? A. No.

Q. And I go into a store and buy a **seventy-five** dollar coat the wholesale price would be about \$50?

A. It might be.

Q. That is a fair spread. A. Yes.

Q. And we will say the expense involved in selling that coat to me was \$15. What would you call the balance in that transaction? A. You would be a patron of that organization and entitled to the overcharge that I took from you.

Q. Yes; You say I would be entitled? A. Yes. You would be entitled to the overcharge I took from you.

Q. And you claim that would not be subject to federal taxation? A. That would not be a profit; that would be yours.

Q. You say that as far as the cooperative stores are concerned that would not be subject to Federal taxation for income and excess profits taxes? A. Under section 4 (p) the 20 per cent clause applies.

Q. That is what you claim? A. We claim the exemption as provided by 4 (p).

Q. Do you give these retail stores in the towns any assistance, any financial assistance in the way of handling their stores? We give them any assistance we possibly can.

Q. What assistance do you give them? A. Not as much as we should, but supervision in accounting and fatherly advice.

Q. Who supplies the fatherly advice? Are you the father? A. I offer some of it, and we have some men who are pretty good at giving advice.

Q. I suppose this fatherly advice and assistance will give them a certain advantage over the individual store

merchant in the town who has not the same advice? A. I would not say so. The merchant already in business has had a lot of experience, and many of our men have not had experience.

Q. You think that the individual private merchant is a better storekeeper than your individual merchant?

A. I would not say yes or no to that.

Q. Apart from your fatherly advice? A. He might or might not.

Q. Do these individual cooperative stores send records of the business they do to you? A. Yes.

Q. How often do they send these records to you? A. Weekly.

Q. They send them every week? A. Yes.

Q. Do these records show the value of the goods sold to non-members or patrons and the goods sold to the general public? A. I would not say they do, no.

Q. You have seen the records? A. There is no segregation there.

Q. Do you annually or at any time in the year obtain from the cooperative stores any statement that will show how much goods they sell to the ordinary public and how much to patrons or members? A. Yes.

Q. Can you tell me the percentage of goods that were sold in 1944, or 1943 if you have not the 1944 records, to non-patrons, and the percentage sold to patrons?

A. No, I cannot, I am sorry.

Q. But you have those records? A. Those stores under that particular plan that you refer to, are only completing their first year or a portion of the year. The other cooperative stores run their own business and they keep their own records of patrons' business in relation

to the member business.

Q. At the end of the year, at the present time, each of these cooperative stores would have a surplus? A. I hope so.

Q. That has been the result in 1944? A. So far, yes.

Q. Is that surplus sent to you, or what is done with it? A. Yes, it is in the case of those we are talking specifically of that particular type. The others have their surplus in their own custody, but we act as the accountants and bankers of those associations in the initial stage.

Q. It is true that some of these cooperative stores have been giving annual dividends to their patrons, is it not? A. I don't want to take you up wrong.

Q. Did the Lafleche Co-operative store not declare a dividend last year and pay it -- actually pay it to the patrons? A. I could not say, but I feel satisfied they did.

Q. And isn't that so with regard to a large number of cooperative stores? A. Yes.

Q. So that they have not only been making that profit or that saving that you hate to call profit, but they have been actually handling it out to their patrons or members?

A. Some of the established stores, yes, a good many of them, yes.

Q. Is it true that within the last six months your members have bought out two stores in the town of Limerick, a town within twenty miles of Assiniboia? A. I am sorry I cannot give that information. My records are up to December 31, 1944, and the Limerick transaction took place in January.

Q. But you do know that two stores were purchased in Limerick in January 1944? A. I think you are correct.

Q. And the town of Limerick has less than 500 people?
A. Yes.

Q. Or approximately that? A. You know; I don't.
I don't know the population, but I presume you are correct.

Q. Now the Government, or rather the legislature, in 1944 passed some very beneficial legislation so far as co-operatives are concerned. You know that? A. They passed certain legislation.

Q. Do you not regard that as beneficial? A. I am not entering into that. Our position is the same as it was previously, and any legislation enacted by any Government has had no bearing whatever on the expansion or the development of the cooperative movement so far in the province of Saskatchewan.

Q. Do you not anticipate that the legislation set up by the Government here in 1944, and the Department of Co-operation which was set up in 1944, will improve the position of cooperative stores and encourage the establishment of a great many more throughout Saskatchewan? A. No; I don't think it would have that effect.

Q. Then you think that what the Government has done is useless? A. No. They have the best intentions, but the urge for cooperation is there irrespective of the Government and that urge will keep on manifesting itself irrespective of the Government.

Q. You are aware of course that a very large part of the population of Saskatchewan voted for the Government in the last election.

MR. FRANCIS: Pardon me --

MR. ROBINSON: I think possibly my question is quite in order if I might explain.

THE CHAIRMAN: The Government would not be there unless that had been the fact.

MR. ROBINSON: Sometimes there is a landslide. I was going to ask the witness whether or not it is true that a great many people who voted for the Government will likely support the cooperatives.

THE CHAIRMAN: I would maintain an objection to that question. We are not entering into any political field.

MR. ROBINSON: I was not trying to get into the political field, Mr. Chairman. I will put this question to the witness, however: It is true that the cooperative movement is succeeding in Saskatchewan?

THE WITNESS: It is expanding; put it that way. We hope it is succeeding.

BY MR. ROBINSON:

Q. But it is expanding? A. Yes.

Q. And the last four years have seen the greatest expansion. Is that correct? A. I don't know that I would say that; no.

Q. Do you not think that the cooperatives are expanding more at the present time than at any other time? A. Only within the last year through the purchase of stores. Expansion was impossible previously on account of Government regulations. There has been only normal development within the restrictions.

Q. But you are finding it easier to purchase stores which are not cooperative than you did previously. Is that correct? A. There was no particular desire previously. The desire to purchase stores arose through a combination of circumstances, through the regulations. Previously, in all probability, a small group would have started with three or four hundred dollars and made a mess of it. The

regulations would not permit them to start that way and the only way they could start was to purchase an existing business, which they did.

Q. Are you at present endeavouring to purchase all the stores that can be purchased in the various towns and villages throughout the province? A. As far as we are concerned we are endeavouring to do our best to put a damper on the thing so that we can keep pace with it.

Q. Just what do you mean by that? A. There are only so many stores we can give assistance to and if more than that are thrown at us, if more work is thrown at us, with the shortage of help and what-have-you we cannot do a job, and consequently we try to discourage undue expansion along that line.

Q. Do you fix retail prices in the town cooperative stores? A. Not much. The Wartime Prices and Trade Board has already done that.

Q. They fix the maximum prices, but do you fix minimum prices? A. No.

Q. You have nothing to do with price fixing? A. No.

The Commission adjourned until 2.15 p. m.

.....

The Commission resumed at 2.15 p. m.

BY MR. THORVALDSON:

Q. I would like to ask half a dozen questions of you, Mr. McKay. I will be brief. I was speaking to you this morning about various miscellaneous revenues your Federated Co-operatives had and you referred to such things as interest on loans and Victory Bonds and one or two small items. There is one other matter that has come to my attention. I

would refer you to the last paragraph on page eighteen of your brief in which you discuss the organization of the members under the Co-operative Associations Act of the province. You refer to two groups and you say: "The second group is commonly referred to as affiliates of the Federation and, under an agreement, have vested in the Federation advisory and supervisory functions, including the general supervision of the business and accounting and auditing." Your Federation renders services to your affiliates? A. Yes.

Q. Do you perform these services for nothing? A. No.

Q. You get paid for them? A. Yes.

Q. You did not mention that this morning. What is the nature of your remuneration? A. I am sorry I cannot definitely answer that question. It is on a percentage basis on the volume of business.

Q. Seven per cent? A. Oh Lord, no -- excuse me; absolutely not.

Q. What percentage is it? A. Roughly 1-1/2 per cent as a start up to \$10,000 and graded down from there on.

Q. Are these the only payments you get from these services? In any event, you do get these revenues?

A. Yes.

Q. And what account does it go into? Does it go into your general service account? I want to know in the first place what you do with the amount that these affiliates pay you -- a saving or earning or profit or surplus or whatever it is. What is done with that money? A. That money is used to pay the staff who are employed to perform that service for these associations.

Q. But it is not based on these services? The money

you get is not based on the services rendered to each particular affiliate? A. Yes, in a general way it is.

Q. You said it was based on the volume of sales. Which is correct? Is it based on volume of sales or on the amount of the service rendered? A. Volume of sales to a large extent.

Q. If there is any profit or saving to your organization-- call it profit in this case -- where does that profit go to eventually? A. Am I supposed to deal with suppositions?

THE CHAIRMAN: Can you answer that question?

THE WITNESS: The charges have never yet been quite sufficient to meet the entire cost.

BY MR. THORVALDSON:

Q. One other question on that point. When your affiliates buy goods from other wholesalers where are the goods sent? A. In some cases direct to the association, in some cases to our organization.

Q. Do you not arrange that in all these cases duplicate bills are sent to your organization? A. Not in all cases.

Q. In nearly all cases? A. In connection with stores taken over in the past year we try to get duplicate invoices, of necessity because we keep the records.

Q. Do you pay these bills or do the stores? A. In the majority of cases they are paid from our offices through the funds which the local association remits to us.

Q. Suppose one of these bills contains a trade discount -- do the wholesalers give trade discounts? A. Yes.

Q. Suppose there is a discount -- the general discount in the textile is 6 per cent -- who gets the benefit of that discount? A. Any legitimate discount allowed to a dealer

is passed on to the store.

Q. Are you sure you do not get some of these discounts?

A. No.

Q. In some cases? A. We may get discounts through the volume of our purchases beyond what the individual store would get, but in every case the store gets exactly what it would have got direct from the supplier.

Q. But there are at times discounts that come to you as a result of these billings? A. Yes.

Q. So that that is an added source of revenue to the Federated Co-operatives? A. Added income, an additional saving.

Q. Whether it is earnings, profits, savings or what not, it is something of that kind, and if there is a profit there it would go into the general service account and not back to the particular stores? A. Not of necessity.

Q. Not at all. A. No, unless it was some large discount. We have passed along rubber discounts, which were substantial, as a special commodity discount.

Q. But if there are savings or earnings made in these cases they go into the general service account and are allocated to all the members, whether affiliates or not?

A. That is right.

Q. I want to show you a letter. You said this was done in very few cases. Where is this letter from? What is the date of it? That letter was sent by whom? A. By one of our employees, who is in charge of accounting.

Q. At Saskatoon? A. Yes.

Q. Sent to all suppliers associated with cooperative stores? A. Yes.

Q. This says: "In order to facilitate payment of purchases, please forward all statements of accounts to

stores accounting department, head office, Saskatoon, Saskatchewan. Invoices to be sent to local stores as usual." You give the number of associated cooperative stores as sixty-five? A. Yes.

Q. And you have written this letter to suppliers of all these sixty-five stores asking them to bill you?

A. Mr. Chairman, I don't want a misunderstanding to arise there. The reason for that is that our stores department is keeping all the records of these sixty-five stores and necessarily they must have copies of invoices and verifying statements in order to do the job properly.

Q. One other thing. In buying businesses -- I understand you are negotiating for the purchase of a business now and I do not want to mention the name of this business at all, to be fair to you -- I would ask you this question: Is there a taxation problem involved in the purchase of the business you are negotiating for now? I just want to examine you on this so far as the taxation problem may be concerned. I will give you a hypothetical case. I know the figures involved but I will not give them so I will put a hypothetical case. A firm has a capital of \$100,000 paid up and has -- this is a supposition -- an undistributed surplus of \$100,000. That means that when that surplus of \$100,000 is distributed to the shareholders it is subject to income tax in the hands of those shareholders. You know what I mean. The question is this: If you should buy that business would you expect that \$100,000 of undistributed surplus to be tax-free in the hands of your Federated Cooperatives, thereby giving you an advantage in the purchase of that business over a private individual or corporation?

A. I am sorry, but I must have that question repeated because I don't get it.

Q. In the case of buying a business having a large undistributed surplus, you being a cooperative, have you considered the question, or have you had advice on the question, whether such undistributed surplus would become tax-free if you bought that business? A. We have absolutely nothing to do with that surplus. We buy the business for a given sum of money and we don't buy the surplus or even the shares. We buy a business, say, for \$200,000 and we are through.

Q. Do you buy the shares or the assets? A. Not the shares, no.

BY MR. FRANCIS:

Q. In connection with all the businesses which you have purchased or which have been purchased under your auspices, let us say, have you ever bought the shares of a business which was a going concern, which was operating? A. No.

Q. A question was asked this morning as to the percentage of business which the Refinery had with non-members and you did not have the exact percentage at that time but suggested that you would be able to get it. Have you got it? A. Yes. During the noon hour I got the figures. Outside sales, non-member business from the Refinery -- it is purely and simply in the wholesaling -- aggregated 1.02 per cent of the gross sales of the organization including fuel to the Canadian National Railways. That was the information Mr. Thorvaldson asked for.

Q. The question of the binder twine reserve was brought up by my learned friend. Just to explore that for a moment, would it be fair to say that was a contingency

reserve? A. It most certainly was. I thought I made it clear that it was definitely a contingency reserve to take care of a certain emergency. I did not designate it a contingency reserve, however.

Q. Has the contingency, to meet which that reserve was set up, arisen, or is it in sight? A. I would say that in all probability we are going to encounter that contingency. It is coming. We are going to be faced with it this coming season. There is a strong possibility, for the reason that we are carrying over at the present time unsold twine for our own account, unsold twine of very definitely inferior quality, war-time twine of the poorest type available, and unless we can get the supplier to take it off our hands we shall very definitely have to apply a very substantial portion of that reserve against the loss we are bound to take on that twine.

Q. In connection with the Rochdale principles, a good deal of attention was properly directed to the application of the principles of your organization. Before I put a question to you, may I briefly review the situation. I suggest that it is common knowledge that there are in Great Britain some hundreds of associations which have been established and which operate on the Rochdale plan or according to the Rochdale principles. You will agree with that? A. Yes.

Q. They started about 1844, and it is also common knowledge that about 1861 these societies began to consider supplying themselves with further services and so formed a Federation, and there were two Federations in Great Britain, the Scottish Co-operative Wholesale and the English Co-operative Wholesale. Is that correct? A. Yes.

Q. And it is probably true that the English Co-operative Wholesale is perhaps the biggest organization of that particular type in the world? A. Yes, the largest.

Q. As your brief shows, in 1929 the twenty-nine pioneer associations in Saskatchewan decided to form their Federation. Do you know where they got the pattern on which they set up their organization which is now Federated Co-operatives? A. You are asking a funny question.

Q. I have done that before. A. I may say, Mr. Chairman, that Mr. Francis happened to be the solicitor for the organization who prepared the constitution and by-laws and who patterned them naturally after the English and Scottish Co-operative Wholesale Societies on established Rochdale principles.

Q. Particular attention was directed to two or three matters this morning, and the word "divided" was discussed. A good deal of discussion took place with regard to that word. Secondly, considerable attention was paid to the authority placed in the Board of Directors? A. Yes.

Q. And thirdly, some comment was made, and properly made, as to the majority opinion being required -- only the majority opinion of the members or shareholders being required? A. Yes.

Q. Now my learned friend Mr. Barr, who holds a watching brief for Co-operative Refineries, has been good enough to furnish me with a copy of the by-laws of the Co-operative Wholesale Society of Great Britain. I would like to read into the record one of the by-laws, and since this copy is not my own I would like to have an opportunity at Ottawa of obtaining a copy of the by-laws and filing it at that

time. In the meantime I would read section 19 from the printed copy of the Co-operative Wholesale. The marginal note is "Division of Surplus". I quote: "19. The net proceeds of all business carried on by this society after paying or providing for the expenses of management, interest on loans, the proper reduction in the value of land, buildings, factories and for such interest upon the subscribed capital thereof as aforesaid, shall be applied either to increase the reserve fund or to any other purpose which the general meetings may from time to time direct, whether such purpose be charitable, philanthropic, public utility or any other purpose, whether within the objects for which the society is formed or not, and subject to any such direction shall be divided among the members in proportion to the amount of their purchases during the period to which the division relates." That is not identical with the by-laws but I suggest to you, Mr. McKay, that it is the pattern on which you built your organization? A. That is correct.

Q. The conditions in Great Britain and the conditions here are different. Is it fair to say that you have from time to time adapted your rules to meet the conditions in western Canada? A. That has been our object.

Q. And is it fair to say that the revolving method of financing has been evolved to take care of conditions as they exist in the west and in Saskatchewan particularly?

A. Yes.

Q. Some evidence is before the Commission as to the taking over of stores, the numbers and so on. The question I wish to ask may be to some extent open to the objection that it is not a matter of direct testimony, but I intend to call at least one merchant who has sold to the cooperative

to get direct evidence, though it would be of advantage to have Mr. McKay give the reasons that have been advanced to him by merchants who were selling as to why they sold. I don't think that is something that is too remote to come before the Commission.

THE CHAIRMAN: It is permissible.

BY MR. FRANCIS:

Q. I will select an example to indicate that this is sound. Mr. McKay, would you state the reasons that have been mentioned to you by merchants who have sold businesses to cooperatives under your auspices, let us say -- the reasons they gave you for selling. Would you kindly state those to the Commission? A. The principal reason given is sympathy with the cooperative movement and the desire to see local people, who are in most instances old friends, get their businesses. That is the first reason usually advanced. Again, a good many of them think that the cooperative movement is coming anyway and is doing business, and rather than fight if they prefer to sell to it. That is another reason. You have those two reasons -- sympathy for the movement and the wish to sell to it. But there is another reason that is given, which in my opinion is quite an excellent one -- I am not so sure of the first two -- and that is that in the case of cleaning up an estate where the owner has died the cooperative apparently provides a medium whereby people can quickly realize on their property for cash. So that we have been the instrument in taking over a certain number of store properties and stocks that were in the estate, the owners having died. Another very valid reason is this --

Q. Are those some of the reasons that have been given you? A. Yes, absolutely. Another reason is overwork due

to scarcity of competent help. No, I beg your pardon; the third reason, I would say, is age and indifferent health in a number of instances. That is given frequently as a reason. A fourth reason is, as I have said, overwork due to scarcity of competent help, and that is a very good reason. Still another reason is the fact that there are difficulties by reason of quotas, shortages of merchandise, the multiplicity of records and reports due to rationing, coupons, etc. etc. Another reason that is often given is the desire of a person to move to some larger centre where there are educational facilities and that would be the case with younger people who have growing families. They want to move away to some centre where there are high schools. Those are the principal reasons given me.

Q. Has the reason ever been given to you that the vendor wished to escape the payment of income tax? A. No.

Q. It has been suggested in a number of arguments in the western provinces that it has been possible for co-operatives to acquire businesses from private owners because of the reserves that they are able to set aside from the operation of their businesses. I think that is a fair summary of a number of arguments that have been advanced. This morning you gave evidence to the effect that there were thirty-six businesses taken over under the auspices of the Federation in 1944; thirty-six were acquired by thirty-four stores? A. Yes.

Q. Can you give the Commission the total purchase price of those thirty-six businesses? A. Yes. The total purchase price involved in those thirty-six stores was \$327,504.

Q. Can you furnish the Commission with the portion of

that aggregate of purchase prices that was supplied by new capital? By that I mean either loans obtained by the co-operatives or new share capital or membership fees subscribed by associations. What is the total for the thirty-six businesses? A. \$310,622.

Q. So that in round figures the balance that has been taken up in some other way -- that is, from reserves or in some other manner -- in connection with those thirty-six was \$17,000. Is that correct? A. Yes, and not any great amount of that was from reserves.

Q. What made up the \$17,000? A. In a number of instances the real property, that is the real estate where local capital was not sufficient to pay cash for the whole thing, lock, stock and barrel. In a number of instances terms were arranged on the real property, the buildings. The balance naturally was made up from earnings these organizations had built up previously.

Q. So that apart from a few thousand dollars, the purchase price of the thirty-six businesses was provided by new capital? A. Yes.

Q. And not from reserves? A. That is correct.

Q. Has the Federation been able to agree to the acquisition of all the private businesses which the co-operatives throughout Saskatchewan have been desirous of obtaining? A. No, definitely not.

Q. Put it another way. Is there a demand in many districts of Saskatchewan on behalf of the people for certain facilities, which demand has not been met? A. Oh yes.

Q. What is the practice in this matter? Is a public meeting called, do people attend and subscribe capital and have money available as soon as title is clear? Is that the practice in many cases? A. The customary procedure seems

to be for the few leading spirits in every community to take the initiative, and that usually results in a meeting being called in some convenient place where a decision is arrived at as to whether or not it would be advisable to go into business and, if so, what type of business they should go into.

Q. With regard to the expansion of the Federation, is all of the money which is used for expansion obtained from reserves set aside by the Federation? A. Not entirely.

Q. Does the Federation obtain loans in addition to the retention of patronage dividends? A. Yes, in some instances.

Q. Has the Federation within the last two or three years floated any bond issues? A. One issue in 1943 for \$40,000 and one during 1944 for \$80,000.

Q. That is, \$120,000. Was that money obtained for the purpose of expansion? A. That money was obtained for the purchase of real property in the cities of Regina and Saskatoon. In other words, we were unable to continue to rent suitable premises and it was considered advisable to secure premises, and that was for the purpose of financing the purchase of these premises.

Q. Are those loans obtained through the issue of bonds secured from the public generally, or are they obtained from persons who are members of cooperative associations?

A. At the time the bonds were considered by the members the decision was arrived at that the sale of these bonds present or future should be restricted to the members or their families?

THE CHAIRMAN: Was that in fact done?

THE WITNESS: Yes.

BY MR. FRANCIS:

Q. That policy has been followed and they are restricted?

A. Yes.

Q. A great deal has been said about the revolving method of financing. Has any pamphlet been prepared under competent guidance dealing with the matter of the revolving fund by way of explanation? A. Yes.

Q. In your opinion, would it be of advantage to the Commission to be supplied with copies of that pamphlet?

A. I think we should have supplied them some time ago.

Q. These pamphlets contain an article on the revolving-door plan giving an explanation of the manner in which it operates. It is explanatory and is written by Mr. H. R. Lamberton, who was a Bachelor of Arts and who is quite familiar with the whole matter. If the Commission would like to have copies filed they would be of help. I believe, Mr. McKay, a good deal of attention was paid yesterday afternoon to the position of the individual in a local association with respect to his share in the reserve funds, and the suggestion was made, and quite properly made, that the control rested with the majority of the shareholders. Have there come to your attention from time to time cases where individual members desired their reserve funds, or required their reserve funds, which are set aside for contingencies, and where they either made application for them or the association offered to give them? Have cases like that come to your attention? A. Yes, frequently.

Q. What is the latest one that has come to your attention? What is the one freshest in your mind?

A. One came to my attention last Saturday morning. There was a resolution passed at one of the cooperative annual meetings and it was handed to me. I have read the resolution

passed at the meeting and signed by the president, the secretary and a witness, and I might say that one of the shareholders of this particular cooperative, the Estlin Co-operative Association, had the misfortune to lose his house and personal effects, and this was the resolution passed at the annual meeting of the association on January 25, 1945: "That this meeting go on record as approving the directors' recommendation that the deferred dividends and loan capital of R. J. Northcote in the Estlin Co-operative Association be made available for his immediate use if so desired, because of Mr. Northcote's loss of home and contents by fire on January 20, 1945." That was carried unanimously and it is certified correct by the president, the secretary and a witness.

Q. Do you know of other cases where reserves have been made available? Are there others? A. In a real case of hardship, where the bona fides are established, the local board has the discretion and is quite prepared, if the finances of the organization are in half decent shape, to take care of the particular case in point.

Q. With regard to superannuation, some discussion arose. You have in the Federation a superannuation scheme for the employees. Has that plan been approved by the Minister? A. Yes.

Q. As I understood the discussion yesterday, the opinion of one member of the Commission was that funds set aside in the superannuation scheme were not deductible. As I understand section 5, subsection k, paragraph (ff), if it is approved by the Minister the amount set aside is deductible. I call attention to that point. I think that is the situation.

MR. VAUGHAN: I raised that question. They are deductible

up to a point under certain conditions. As I remember, although it is several years ago since that was passed, I think the limitation was 5 per cent with a maximum of \$300. In your organization what would be the average salary of those who receive superannuation? How much a year? -- thirty or forty dollars?

THE WITNESS: Possibly forty dollars.

MR. VAUGHAN: That is \$2,000 a year, and 5 per cent of that would be \$100 a year. It is a very small amount.

MR. FRANCIS: I simply wanted to direct attention to that provision in the Act and also to establish the fact that the superannuation scheme of this Federation had been approved.

MR. VAUGHAN: The point I had in mind in asking the question was to find out if you were establishing a pension fund for the members in general. That was why I asked the question. I found it was not so.

MR. FRANCIS: One other point. I believe my learned friend Mr. Thorvaldson is under the impression that the manner of control of the refinery was changed in 1938. I gathered that.

MR. THORVALDSON: Since 1938.

BY MR. FRANCIS:

Q. There was some question asked as to whether or not full information had been given the Income Tax Department. When was the amalgamation between the Refinery and the Federated Co-operatives consummated? A. The 1st of November, 1944.

Q. So that it has just gone into effect? A. Yes.

MR. PARKER: Why do you call it an amalgamation? It was a straight purchase, was it not?

MR. FRANCIS: The arrangement was somewhat unusual. The word "amalgamation" was used throughout the negotiations. Perhaps my learned friend is correct, that it was a purchase. It was an exchange really; that is to say, the shares of the Refinery, the shares and capital stock, were conveyed to the Federated Co-operatives and the Federated Co-operatives issued in turn shares to the local association that held Refinery stock, and any deferred patronage dividends were consolidated and covered by certificates. It was, I suppose, a purchase but they call it an amalgamation. That is all.

THE CHAIRMAN: That concludes the case.

Brief presented by A. J. Wyman, Merchant of
Assiniboia

MR. PARKER: I wish to accommodate Mr. Robinson, who is anxious to get away. I understand he proposes to read a brief on behalf of Mr. A. J. Wyman of Assiniboia and then call Mr. Wyman.

MR. ROBINSON: The brief reads:

"To the Chairman and Members of the Royal Commission sitting at Regina, Saskatchewan, I have the honour to present the following submissions on the question as to whether or not cooperative associations should be exempt from income and excess profits tax.

"In the first place I would point out that I have instructed my counsel to present this brief as if I were personally presenting it. It is my desire to give you gentlemen the carefully considered views of an individual merchant who has carried on business in a south-western Saskatchewan town for the past twenty two years.

"In order that you may get the proper picture I think

it is necessary for me to tell you a little about my own career as a business man. I was born at Essex, Ontario, in 1886. Quite early in life I determined that I would be a storekeeper and ever since I have had as my main objectives: First, the maintenance of my family, and second, the maintenance of the very best departmental store that could be carried on in a good, live western town.

"After going through the usual routine of store clerk, working for others, I finally succeeded in opening a small store at Lafleche, Saskatchewan, in partnership with Oscar Ball, who later retired from the business. I went through the usual trials and tribulations of the small storekeeper, but I ever kept in mind that some day I would be the proprietor of an establishment that would be a credit not only to me and to the town in which it was situated, but also a credit to the surrounding country.

"I am proud to say that I succeeded in my objectives and finally opened my present departmental store at Assiniboia in 1922 where I am now carrying on business in a comparatively large way. My sales last year aggregated approximately \$140,000. In that store I sell merchandise of all kinds that is required by my town customers and by my many farm customers in the surrounding territory.

"I employ twelve persons besides myself and I believe I can say without fear of contradiction that no employee works harder than I do. But it is not work to me, for I get more pleasure from seeing my business prosper than could come to me in any other way. However I find myself in my present situation only after many years of hard struggle, for comparative prosperity has only come to me recently.

"I do not wish to dwell on the hardships that I and

other individual merchants have endured for, whenever I look back, a great weariness settles upon me. I will, however, mention the days of the great drouth and depression which for many years choked out all chance of advancement in the southern part of this province. Assiniboia, my own town, was situated in the very worst part of the great dust bowl. Here was nothing but a desert, greater in extent, if you gentlemen will pardon me, than the desert of verbiage that has descended upon you from all parts of Canada in connection with this Commission.

"Gone were the green fields of spring, which, after seeding, were wont to spread like great lawns over the whole countryside. Gone were the golden fields of harvest days which had formerly, and now do again, rival in grandeur the crimson of the eastern maple. In their stead was nothing but a barren waste. The farmer planted his seed only to have it cut off either by the howling winds of early summer, or, more discouraging still, found it seared and withered when it had almost reached maturity. A veritable Sahara on every hand! Where fences had previously been, the only boundaries were mounds of dust extending for miles and miles like grave upon grave in a never-ending cemetery. Truly it was the grave of the farmers' hopes and the grave of the hopes of all those who were dependent upon them for business.

"I do not need to tell you what affect that drouth and depression had on the town merchant. The western farmer is always dependent on credit from his storekeeper, particularly in bad times. Practically every merchant in southern Saskatchewan extended credit to his customers, particularly to farm customers, and I was no exception to

the rule. The dust of depression not only settled over the farms of my locality, but it sifted into every inch of my business to such an extent as to nearly end it. I was really bankrupt in all except a determination to win out despite of everything. So, notwithstanding the drouth and depression I, along with many other western individual merchants, weathered the gale until adversity gave place to prosperity. Until recently I felt that never again would I be fearful of the termination of my life work.

"Yet now the germ of fear has again confronted me. I, who have survived the test of establishing myself in business, who have survived the great drouth and depression, who have undergone without complaint the strenuous competition of the chain store, who have been assessed for and paid heavy income tax and excess profits tax with a fortitude only inspired by patriotism, am now confronted with the dread spectre of unfair competition, even unfairer than any that has ever been seen in Canada.

"We have had our trust, creatures of the big interests. We have had our combines and monopolies, but in my humble opinion the most iniquitous thing which has yet confronted the individual merchant in western Canada, which has yet confronted me, is a tax-free cooperative association, that can carry on the same business as myself, in direct competition with me, and not pay one cent of income tax or excess profits tax. The cooperatives are supposed to be the representatives of the common people, of the small man, of the poor man, of the individual, but, if they are permitted to operate free from Dominion Income and Excess Profits Tax, they will be more unjustly favoured than any trust, monopoly or combine that has ever existed in Canada.

"It would not be quite so bad if the cooperatives were not given special privileges in this province. In Saskatchewan, we now have a special department of the government whose duties are solely to promote the organization and welfare of cooperatives. Consider for a moment what that means. It means that all farmers and in fact all people in Saskatchewan are advised in no uncertain terms that in the opinion of the government the cooperative store is the one they should patronize, the one that they should lend their support to, and the one where they will get the best value for their money, as well as a handsome dividend at the end of the year.

"Not only will this government support greatly assist the present cooperative stores, but it will very soon result in the establishment of a great many new cooperative stores and if they continue to be federally tax-free then I can see no other course for myself and all other individual merchants to adopt than to go out of business now, before unfair competition has driven us into bankruptcy.

"Please do not misunderstand me. I have no quarrel with the cooperatives, my only grievance is the proposal to exempt them from Dominion income and excess profits tax.

"In order to break even in my business my turnover must be at least \$75,000. If the turnover is less than that, I lose money. In the drouth years my turnover was only about \$50,000 and in some years I lost as much as \$5,000. In those days it would not have mattered to me how high the income tax or excess profits tax was. But today my gross profits amount to about \$15,000. per year out of which I pay approximately \$12,000 to the Federal Government in income and excess profits tax."

These figures are only approximate and probably the amount of the tax is too great there, but of course it will not affect the principle. As a matter of fact my client has applied for allowance for salary but it has not yet been given. That is the reason that figure appears so high, though, as I say, it does not affect the principle.

Continuing:

"From this you can easily see that I cannot hope to compete with a tax-exempt cooperative store operating a business of the same size, for that store can do one of two things: either reduce the price of its goods to the extent of \$12,000 or annually divide amongst its customers that \$12,000. I have many friends amongst my customers, but friendship ceases so far as buying goods in my store is concerned the moment my prices are much higher than those of my competitor and also ceases if my competitor can grant my customer a dividend that I cannot give.

"The individual merchants in my district have already commenced to sell out their businesses. In the town of Limerick with a population of only about five hundred two such merchants have just sold out to cooperatives and that is only a sample of what is or will shortly be going on all over Saskatchewan unless the decision is made to tax the cooperatives.

"I submit that the individual merchant has been the backbone of this country. It is he who has stood by the farmer through thick and thin, in bad times as well as good and it does seem to be most inequitable that even newly formed cooperatives should be given such a preference over him.

"I do not want to go out of business. As a result of

taxation imposed upon me by the Dominion parliament due to war conditions I am making far more money for the Government than I am for myself. I am quite content to do that. I realize that it is my duty to do that. It is also a joy to assist in the preservation of these democratic principles which we are fighting for but if we are to continue this work for democracy, we must see to it that autocracy does not under the guise of cooperation put out of business those who are at present and hope still to be in the future supplying the sinews of war for our government until we see this thing through to a final victory.

"I am not one of those who sees the early elimination of Dominion income tax and excess profits tax following the conclusion of the war. I realize that the rehabilitation of our armed forces will be a tremendous task and one that cannot be accomplished without the expenditure of vast sums of money. It follows that the question before this Commission is not one of the present moment only but one that will affect us for years to come. Even when the war is over I am still willing to assume my share of the burden. I am willing to continue to pay my share of all necessary income and excess profits tax, but I am not willing for cooperatives to carry on business in direct competition with me and escape altogether a duty which I believe to be that of every citizen, namely to assist those who have fought for us so gallantly on land, on sea and in the air and who will continue to fight for us until this war is brought to a successful conclusion.

"It is now scarcely necessary for me to say that if cooperative stores in Saskatchewan are not compelled to pay all taxes the same as other stores, I shall be

eliminated from the store business. I cannot meet the competition which would ensue as a result of the extension of the cooperative store with the help of the provincial government, unless the Federal government decides to tax them the same as other businesses.

"Not only would I be put out of business by such unfair competition, but I would be very foolish to wait until that result actually took place. If the Dominion government does not see fit to tax the cooperatives the same as I am taxed I can say right now that just as soon as that decision is reached I intend to wind up my business for I cannot do otherwise in fairness to my family and myself. As previously intimated I would hate to close my doors for I do not regard my business as a place in which to make money, but rather as a place in which I can do more for myself and my fellow men than I could do in any other sphere or walk of life.

"I am submitting this brief solely as an individual and at my own expense in the hope that it may add even a little to the vast knowledge you must have already received and will yet receive in your journey across Canada.

"I wish to thank you very much for the privilege of presenting my views to you.

"All of which is respectfully submitted to the Royal Commission by A. J. Wyman of Assiniboia through his Counsel, L. McK. Robinson, K. C.

Sgd.: 'A. J. Wyman'

per: L. McK. Robinson. "

I propose to call Mr. Wyman.

THE CHAIRMAN: There are no facts in the brief. We are grateful for the expression of his views and it would suffice for him to establish generally the correctness of

the brief.

A. J. WYMAN,

Merchant of
Assiniboia, Saskatchewan,
having been duly sworn
testified as follows:

BY MR. ROBINSON:

Q. You have heard the brief which I have read to the Commission on your behalf? A. Yes.

Q. How was that brief prepared? Perhaps I can suggest that it was prepared by me in consultation with yourself, after quite a number of interviews with you? A. Yes.

Q. You went over it carefully before it was filed? A. Yes, before it was presented.

Q. There are just one or two questions I would ask you. How large a town is Assiniboia? A. Fifteen or eighteen hundred.

Q. From what distance do your customers come to your store? A. Twenty-five or thirty miles.

Q. How far distant is Limerick? A. Fourteen miles.

Q. How far is Lafleche? A. Thirty miles.

Q. You derive your business from the town of Assiniboia and from the farmers? A. Yes.

Q. Which would be the greater source of income, the farmers or the town? A. The people coming from outside, the farmers by all means.

Q. It is true that you were on the verge of bankruptcy at one time after the depression? A. Yes. I went through an extensive and trying period in 1932 and thereafter but I paid one hundred cents on the dollar. It took ten years to clean it up.

Q. You did not have your debts reduced? A. No.

THE CHAIRMAN: Do you verify the statements set out in your brief?

THE WITNESS: Yes, with one exception, and that is the tax. We are asking to have something done. We have a \$5,000 standard profit. I applied for allowance for salary a year ago and I have heard nothing about it. Talking to a chartered accountant, he said he did not think there would be any doubt about it.

THE CHAIRMAN: So that the figures you give of \$15,000 and \$12,000 are approximate only?

THE WITNESS: Yes. Have you not the figures from the accountant, Mr. Robinson?

MR. ROBINSON: You had better leave it that way. I said they were approximate.

THE WITNESS: The difference is in the matter of salary.

MR. ROBINSON: My client will have to assume responsibility for this. He asked me to put in an exhibit, but it will be only an informal exhibit.

THE CHAIRMAN: We thank you for your attendance, Mr. Wyman, and will carefully examine your brief and exhibit.

MR. PARKER: The next brief to be submitted comes from the Lloydminster & District Agricultural Co-operative Association, Ltd. It will be presented by Mr. C. G. Davidson.

C. G. DAVIDSON,

Manager,
Lloydminster & District
Agricultural Co-operative
Association, Ltd.,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. You are the General Manager of the Lloydminster & District Agricultural Co-operative Association Ltd.?

A. Yes.

Q. You have been Manager for how many years?

A. Eighteen years.

Q. Lloydminster is a large town on the northwestern boundary of Saskatchewan with a population of how many?

A. Fifteen hundred.

Q. The brief you are now about to present, I take it, was prepared under instructions from the Board of Directors, and you have authority to present it to this Commission on their behalf? A. Yes.

Q. Will you please read it? A. It is only a short brief. It reads:

Lloydminster, Sask.,
January 22, 1945.

"The Royal Commission on Co-operatives,
Regina, Sask.

"Gentlemen: Brief re Income Tax and Excess Profit Tax
 from The Lloydminster & District
 Agricultural Co-operative Association
 Limited

"We respectfully present the following:-

"It was in the year 1903 that the Barr Colonists arrived at Lloydminster from the Old Land. They immediately busied themselves getting settled down under what to them were rather changed conditions. Many of the settlers had been members of Consumer Co-operatives in England and having enjoyed the benefits, kept in mind the idea of forming a co-op. store in their new surroundings. Although several attempts were made it was not until June 1914 that it was decided to form the Lloydminster & District Agricultural Co-operative Association Limited with an authorized capital of \$5,000, made up of 200 shares at \$25 each, \$10 on each share to be paid up. A collection amounting to \$7.60 was taken from those present to meet a portion of the initial expense.

"Following this meeting, on August 7, 1914, an organization meeting was held, when 23 shares were sold, and as \$10 each was subscribed the initial working capital accordingly amounted to \$230. The membership was then 16, today the membership is numbering about 1,000 and the share capital paid up approximately \$55,000.

"What actually prompted the formation of the Association was a desire amongst the district agriculturists to secure reasonable prices for both what they produced and what they consumed.

"Taking the shipping of livestock as an example there was a pronounced feeling that unfair treatment as regards poor prices and careless handling of the livestock had hitherto been the rule. Subsequently a livestock shipping department was instituted. This met with immediate success. It continued to prosper to such an extent that the livestock department undoubtedly produced the finance for development in various directions.

"As far as merchandising was concerned, the association commenced by the purchasing of a carload of lumber and a carload of Ontario apples in barrels. The lumber was sold to the members on a 10 per cent on cost basis. The carload of apples was sold by six of the original directors guaranteeing the sale of 25 barrels each.

"In 1915 a lumber yard was purchased and equipped. Then a grocery and dry goods store was bought out. In 1921 a hardware business was added to the activities.

"In 1927 it was decided to build a store adjoining the hardware building. At a cost of \$20,000 this was accomplished. A large archway was cut between the two stores, thus consolidating the grocery, dry goods and hardware under one roof. In August 1929 fire wiped out the entire building

and stock. The loss was approximately \$100,000. It was covered by insurance. Within a week the business was operating in a new temporary building. December 1929 saw the completion of a new store 117 by 100 ft., with full basement and office quarters on a mezzanine floor. On this floor are also housed the board room and a lounge and reading room.

"Every convenience is placed at the disposal of not only shareholders but to the general public. The result is that the association progresses steadily and business is being drawn from an ever increasing radius, thus creating a transient business which depreciates considerably the sales value of our shareholders.

"Up until recent years the Income Tax Department has always recognized the distribution of a 'Patronage Dividend'. The word 'Patronage Dividend' has so far been taken to mean 'A Trade Discount'. In other words the Patronage Dividend is a return to the trading members of the association of the difference between 'Cost of Goods Sold', which item includes overhead, etc., and the 'Selling Price', or the 'Actual Cost of the Article' plus the cost of doing business.

"The Lloyminster Co-operative Association has always been tax conscious and as far back as 1934 have complied with the laid down provisions of the Income Tax Act.

"It was in 1942 and 1943 when the Excess Profits Tax started to make serious inroads into the financial structure of the association, that it was felt that some steps should be taken to protect the members of the association from excessive taxation, which would ultimately result detrimentally to the association as a whole.

"It has been stated in the Historical Survey of the association that the members became shareholders upon the

payment of \$25. During the last ten years the members have subscribed an average of \$48,680, which means there are approximately 1,947 fully paid-up shares issued. On these shares there was paid by way of interest an average of \$1,797 per annum over the past ten years, or 3.6 per cent on the share capital invested.

"During the same average period of ten years there was returned to the members and the patrons of the association, by way of Patronage Dividends, the sum of \$9,621 each year. This was calculated upon an average yearly profit of \$15,841 or 60.7 per cent upon the profit earned.

"The distribution of profit **over** the past ten years can therefore be stated as follows:-

	<u>Amount</u>	<u>Percentage</u>
Returned to shareholders and patrons by way of patronage dividends	96,219.23	60.7
Paid to shareholders by way of dividends upon share capital subscribed	17,973.10	11.3
Paid for income and excess profits tax	20,694.87	13
Surplus funds invested in capital additions and Dominion Government bonds	23,527.92	15
Total net profit from 1934 to 1943 (10 years).	\$158,415.12	100 per cent

"Perhaps the only point in the above summary, apart from the income tax paid, that warrants any comment is the item of \$23,527.92, being capital additions and Dominion Government bonds investments. In a business that for the

last ten years has averaged \$248,314 in sales, with purchases running \$197,943 per year, a sound business credit must be established. In the past it was necessary at certain times of the year to borrow money from the bank to meet whole-sale drafts, etc. This money was borrowed upon the personal guarantee of the directors. This procedure was hardly fair to the individual director, so that a substantial investment fund, consisting of Dominion Government bonds, has been built up and the association is now able to take care of any trade liabilities without pledging the individual directors credit.

"In the past the Lloydminster Co-op. has failed to qualify by about 5 per cent from being able to exercise the provisions of Part 2, Sec. 4, S.S. (1), Para. (P) of the Income War Tax Act, wherein the 20 per cent clause is laid down. This means that with the exception of the Patronage Dividend, the Lloydminster Co-operative Association comes within the full scope of the provisions of the Income War Tax Act, as it applies to any other company operating for gain.

"In 1943 the amount of the Income Tax and Excess Profits Tax for The Lloydminster Co-operative Association amounted to \$11,304.31. This amount has been paid in full under protest. All payments were marked 'Without Prejudice'.

"The fact that the Lloydminster Co-operative Association by virtue of heavy sales is prevented from enjoying the same privileges as other cooperative associations in the province, just because they fail to qualify by 5 per cent, would definitely indicate that the entire provisions of Para. (P) need revision.

"Respectfully submitted,

Yours very truly,

Lloydminster Co-operative Association
Limited

Sgd.: C. G. Davidson."

BY MR. FRANCIS:

Q. Is there anything that you would like to add to the brief? A. I have nothing to add.

THE CHAIRMAN: Your contention is that 4 (p) embraces your particular organization?

THE WITNESS: Yes.

THE CHAIRMAN: That is, the 20 per cent clause?

THE WITNESS: The actual figure for 1943 sales is \$323,679 and patronage bonus \$243,484. If we were going to get the benefit of the 20 per cent clause it would mean that we would have to have \$80,295 sold outside whereas we finished with \$64,735, or \$15,560 short of the amount required.

BY MR. PARKER:

Q. Just one question. On page three of the brief, in the figures that you have given during the period in question, the profits of the company amounted to \$158,415. That was for the ten-year period. Out of those profits you have paid \$20,000 in taxes? A. We paid in taxes \$20,694.87.

Q. In other words, you have paid income tax on all your profits except what was distributed as patronage dividends? A. Yes.

Q. Was the source from which the profits were made, which were taxed, any different from the source of the profits that were distributed in patronage dividends? They both arose in the same way from the same general source, and

the only reason why one was taxed and the other was not was due to the manner in which the profits were distributed?

A. Yes.

BY MR. ARNASON:

Q. What system of records do you use in ascertaining the sales made to non-member patrons as compared with the sales made to members? A. We do not keep a record of all sales made from one year's end to the other. On all sales slips there is a notice telling people that for the purpose of the bonus record they must turn in the slip before the last day of January in the year following the purchase, so that all we have is what the people ask for, and if we are \$15,000 short of the amount required that is due to the carelessness of some of the shareholders or of people who do not make claim for bonus.

BY MR. ELLIOTT:

Q. It would require a great deal of reorganization of your business to keep a more accurate account of sales to members? A. No, I don't think it would. It might cost a little bit more money but we are in the position now of figuring that if we are to pay so much in income tax it might be as well to get help.

BY MR. THORVALDSON:

Q. How many members have you? A. Approximately 1,000.

Q. Are they all shareholders? A. Yes; these are actual shareholders. I could not tell you how many patrons we have building up towards a share.

Q. How many patrons have you? A. Possibly 400 or 500 building up.

Q. That is besides your members? A. Yes.

Q. Besides the members you have 400 or 500 patrons?

A. Yes.

Q. And as a result of the situation you have described you do not qualify for tax exemption under 4 (p)?

A. That is right.

Q. That is why you have paid income tax? A. No.

The four or five hundred would be building up towards a share. These are included in the amount. That shortage of \$15,000 does not come there at all. Everyone purchasing could apply for bonus, for any volume of sales over \$50 is credited in the share capital ledger.

Q. To become members of your business they must buy \$50 worth of goods? A. Yes.

Q. When you do so you automatically become a member?

A. Their bonus is credited to them in the share capital ledger to build up one share.

Q. So that whether you want to become a member or not, if you buy \$50 worth of goods you are on the way to becoming a member and you have a credit? A. As soon as they have \$50 or more and make application for the patronage bonus we then build up a share. We don't give the money back in cash.

Q. What do you do with the money? You put it in a special account? A. No; it is in the business.

Q. But you credit it to a certain person's account?

A. Yes.

Q. And start to make that person a shareholder?

A. Yes.

Q. And when a person has bought \$50 worth of goods in your store he becomes one of your thousand shareholders?

A. No. We have a thousand shareholders above that.

Q. I did not have a copy of your brief and it was hard to hear you. I did not quite follow you. Anyway, you

have paid income and excess profits taxes in the last few years? A. Yes.

Q. But you have not paid taxes on what was paid out in patronage dividends? A. No.

Q. Did you get special exemption from the Income Tax Department in respect of those patronage dividends? Was it ever discussed with you whether you were entitled to exemption on such amounts as you paid in patronage dividends, or not? Was that question ever discussed with you by the Income Tax authorities? A. Our auditor makes returns for income tax and he is in close contact with the office in Saskatoon and personally I never gave it a thought.

Q. Your auditor has claimed exemption for such amounts as you have paid out in patronage dividends? A. He makes his returns and complies entirely with Government instructions.

Q. I just want to make this clear. In your business you don't pay taxes on the amounts you pay in patronage dividends. That is correct? A. I am not going to be sure of that.

MR. THORVALDSON: Is that the understanding, Mr. Francis? Have you a financial statement from which we could decide the point?

THE CHAIRMAN: It is stated in the brief: "This means that with the exception of the patronage dividend, the Lloydminster Co-operative Association comes within the full scope of the provisions of the Income War Tax Act, as it applies to any other company operating for gain." They are not paying on patronage dividends.

MR. THORVALDSON: I did not hear him read that in the brief, Mr. Chairman. I did not have a copy of the brief.

BY MR. THORVALDSON:

Q. How often do you pay patronage dividends?

A. Yearly.

Q. Every year? A. Yes.

Q. Do you pay them to your patrons as well as to the members? These four or five hundred people you spoke of -- do you pay patronage dividends to them? A. We don't pay it; we credit the amounts on the share capital.

Q. And in that way they become members eventually?

A. In time.

Q. Do you give them membership immediately?

A. When they get \$25 that is a share and they get a share certificate.

Q. And then they are full-fledged members? A. Yes.

Q. Do you get earnings from Victory Bonds or rentals or miscellaneous earnings of that kind? A. Yes. We have interest on Victory Bonds.

Q. How much does that amount to? A. Forty thousand on Victory Bonds.

Q. So you have earnings on that? A. Yes.

Q. So that in spite of paying taxes, in spite of paying income taxes and excess profits taxes, you as a co-operative have made a good success of that business?

A. Yes.

Q. And you have succeeded in building it up while at the same time you have paid taxes. In fact, there is no doubt that you show a very good statement. You are in a very good financial condition today, aren't you? Do you get any other forms of revenue such as from rentals? Do you own houses? A. We have one chattel shed we get \$2 a month for.

Q. Do you get any other revenue? A. Yes. We have another one we rent for \$10 a month for storing flour. That is all.

Q. Those are all the properties you derive revenue on except merchandise? A. Yes.

Q. And of course you file income tax returns every year? A. Yes.

BY MR. NADEAU:

Q. Can we have a set of your by-laws and regulations? A. I will have to mail them, sir. I haven't got them with me.

Q. Would it be possible to have your financial statement? A. Yes.

BY MR. PARKER:

Q. I notice at the top of the letterhead that there is a branch store at Hillmond. Would these figures include the branch store? A. The whole thing is included.

Q. There are not two societies? A. No, just one.

MR. FRANCIS: I am sorry I have no copies of the brief.

MR. PARKER: Some of the Commissioners have intimated that they would like to have financial statements for all these companies.

MR. FRANCIS: I shall be glad to file them. You would like to have a copy of the by-laws and the financial statement.

THE CHAIRMAN: Yes.

MR. NADEAU: The latest one available.

THE CHAIRMAN: It might be well to have a pre-war one too.

MR. PARKER: For 1938 and 1939. I would like to have them for the whole period to show the progress of the business -- say from 1938 to date.

THE CHAIRMAN: Mr. Arnason says he has in the Department copies of all by-laws.

MR. FRANCIS: It was for that very reason that some of the managers did not bring in their financial statements and by-laws.

THE CHAIRMAN: You had better put them in as far as you can.

MR. FRANCIS: What financial statements do you require, Mr. Chairman?

THE CHAIRMAN: The last available and at least one pre-war, say 1938.

MR. FRANCIS: And the by-laws?

THE CHAIRMAN: Yes.

MR. FRANCIS: That would be for all local associations?

THE CHAIRMAN: Yes.

MR. FRANCIS: So that we do not need to refer to it again.

THE CHAIRMAN: No.

MR. THORVALDSON: In connection with the case that was closed, the big cooperative, I do not think there is a balance sheet showing profit and loss. I presume these things will be filed in the case of Federated Co-operatives?

THE CHAIRMAN: I should think so.

MR. FRANCIS: They should be, certainly.

MR. THORVALDSON: They should be filed for a few years back.

MR. FRANCIS: For 1938 and the last available.

THE CHAIRMAN: We had better have them right through for the last ten years. They are easily available.

MR. FRANCIS: Yes. I just want to know what is required.

MR. PARKER: The next brief is from the Davidson Co-operative Association Limited.

MR. FRANCIS: The General Manager has been quite ill

Mr. Chairman, and has been in the hospital. He feels able to read the brief, however, but he would like to be seated and to have the privilege of bringing to the stand with him, to help him answer financial questions, the Treasurer of the association.

THE CHAIRMAN: Would you not save him some effort, Mr. Francis, if you read the brief for him?

MR. FRANCIS: I will do that, my Lord.

JOHN WILSON,

Manager,
Davidson Co-operative Association
Limited,
having been duly sworn testified
as follows:

BY MR. FRANCIS:

Q. Mr. Wilson, you have been on the staff of the Davidson Co-operative Association for twenty-five years?

A. Yes.

Q. And you have been manager for fifteen years?

A. Yes.

Q. This brief was prepared on instructions from the Board of Directors? A. Yes.

Q. With the assistance of your Secretary-Treasurer and other members? A. Yes.

Q. You are authorized to present the brief on behalf of your association? A. Yes.

MR. FRANCIS: I am instructed to ask that the fourth section be deleted, not the fourth page but the fourth section under the heading, "A Consumers' cooperative knows no competition." I will now read the brief, as you suggest, Mr. Chairman. I am also asked to state that on the sheet facing page 1 there is a table indicating the main functions of the Davidson Co-operative.

"Financial Statement of the Davidson Co-operative as of
December 31, 1944."

ASSETS

Cash on hand in bank		2,279.32
Accounts receivable	14,111.52	
less reserve for bad debts	<u>7,888.27</u>	6,223.25
Prepaid insurance		600.00
Inventory of undelivered goods		44,981.56
Dominion of Canada bonds		<u>38,200.00</u>
Total liquid assets		\$92,284.13
Real property, less depreciation		12,156.11
Fixtures and equipment, less depreciation		<u>5,072.00</u>
Total assets		109,512.24

LIABILITIES

Accounts payable	32.83
Reserve for audit, incomplete December 31	250.00

PATRONS' EQUITY

Membership deposits	11,996.08	
Members' loans	34,433.49	
Surplus, December 31, 1943	<u>27,974.78</u>	
	\$74,404.35	
Overage of 1944, for disposal by members at the annual meeting	21,750.88	
Reserve for patrons' emergency benefits	<u>13,074.18</u>	<u>109,229.41</u>
		<u>\$109,512.24</u>

.....

Table indicating the main functions of the Davidson Co-operative listed in the chronological order of the assumption of these functions by the cooperative:

1914 Distribution of coal, lumber and building supplies.

The physical equipment at this time consisted of only a wagon scales and an office.

Distribution was directly from railway cars.

1915 Distribution of gasoline and oils.

1916 Distribution of farm implements and repairs.

1918 Distribution of groceries and provisions.

1919 Distribution of meats.

In conjunction, a cold storage plant was installed.

Dressed poultry, eggs, etc. were handled for our farmer patrons. Live animals were shipped out.

1920 Distribution of hardware, plumbing, etc. Tinshop acquired.

Distribution of dry goods, clothing and home furnishings.

1926 Bakery acquired.

1930 Stabling accommodation acquired.

1938 Patrons' emergency benefits scheme adopted.

1940 Egg candling station opened.

1944 Distribution of pasteurized milk.

.....

(1) "RESPECTING THE QUALIFICATIONS OF THE DAVIDSON CO-OPERATIVE
TO MAKE A SUBMISSION:

"The noun 'cooperative' is one which is now loosely used as including such a variety of organizations that the very meaning of the word has become obscured. The word is being used to describe, amongst others, the following different types of collections of people, organized in many different ways for very different purposes:

"First, consumers' cooperatives;

"Second, joint-marketing associations;

"Third, savings and loan societies;

"Fourth, unions or combinations of the foregoing groups;

that is, unions where the unit is not the person but an organized group of persons.

"The Davidson Co-operative is a consumers' cooperative. We are in a position to report only on this type. Of the others we have no special knowledge.

"The Davidson Co-operative is thirty years old. It is one of the original cooperatives in Saskatchewan. For thirty years it has been experimenting, venturing, exploring and locating paths that other cooperatives have followed seeking always methods by which to increase its service to its members. To a considerable extent it has become a bell-wether for the consumers' cooperatives in the province.

"While it is located in a small town, it has handled over \$400,000 in merchandise purchases during 1944 for more than 700 members. This shows an unanimity of support, a degree of popularity in its community, that few others can approach and none surpass.

"The Davidson Co-operative has been one of the outstandingly successful rural consumers' cooperatives of Saskatchewan. And it has been successful largely because of the quality of its membership which, having once set out upon a community venture has not deviated from its course. The Davidson Co-operative has been, is still, and will continue to be a community undertaking.

"As a solidly established consumers' cooperative with a long history and much experience, the Davidson Co-operative makes the following submission in the hope that it may prove helpful to your Commission in arriving at its decisions. While we are speaking throughout of the Davidson

Co-operative most of what we are saying applies equally well to a number of other soundly organized consumers' cooperatives. However, we claim no authority to speak for them.

"(2) MEMBERSHIP IN THE DAVIDSON CO-OPERATIVE IS NOT CONTINGENT UPON THE PAYMENT OF MONEY:

"All that is required of a prospective member is that, during the course of twelve months, he order and pay for fifty dollars' worth of goods. Having done this, or more, he is awarded at the close of the year his proper proportion of the savings made by the cooperative through its system of bulk purchasing -- that is, his Patrons' Dividend. The first twenty dollars so awarded is not paid over to him immediately. It is held as his membership deposit.

"After the first twenty dollars all Patrons' Dividends are payable in cash or otherwise as the recipient desires. In practice they are generally used to settle for purchases of goods. And the first twenty dollars awarded to a patron -- his membership deposit -- is recoverable by him any time he severs his connection with the cooperative, by death or by his removal from the district. Retention by the cooperative is not permanent.

"Thus membership is not the result of a purchase of shares. The Davidson Co-operative does not have shareholders in any accepted meaning of the term."

Under the Co-operative Associations Act there are two types of organization, the share capital organization and the membership organization. Your organization is the member-ship type, not the share type?

THE WITNESS: No.

MR. FRANCIS: The brief goes on:

"It pays no dividend to any 'shareholder', or on any 'investment'. But it does pay a flat interest rate of 4 per cent per annum to such of its members as choose to lend it money to finance its operations. And its members see to it that it is sufficiently, and amply, supplied with money.

"Besides the money so loaned to it (plus the total of the membership deposits already mentioned) the cooperative has the use of a further fund. This is the result of the practice of distributing Patrons' Dividends in even percentages. It must be obvious that the sum available for distribution from a year's operations will seldom be an exact percentage such as 6 per cent or 7 per cent, and that a distribution so calculated must leave a moiety unaccounted for. These dribblets each year go into the cooperative's Surplus Fund; and, in the course of thirty years, they have built this fund to the quite respectable total of \$27,974.

"This fund in a sense belongs to all persons in the community, jointly, but not any part to any one of them severally. Provision is made in the by-laws of the cooperative that, should the cooperative be wound up, the sum total in the Surplus Fund, after liquidation of assets and payment of debts, must be used to provide scholarships for students from the Davidson district.

"This fund, then, is a trust fund. It is made up of contributions set aside by the members of the cooperatives when, at their annual meeting, they review the year's results and agree to the amount of refund for distribution. Each year they add to it, the amount of the addition varying, and depending upon how great may be the fractional residues left when a distribution in even percentages is declared. This annual contribution to the Surplus Fund

is, of course, the property of the members whose trading that year created it; but it is left unclaimed by them, and is deliberately allowed to lose its identity and to become a gift for the benefit of the community. Its ultimate purpose is to advance the cause of education, but until it is so used the cooperative has free use of it. The cooperative uses no money in its operations except from the three sources as described. It will be seen from the foregoing that, as an entity, the cooperative possesses nothing. All property, whether real or personal, which it is permitted to use is under its control only conditionally. And the conditions under which it holds these properties are those of a trustee holding on behalf of a revolving body of members and, in part, for all persons resident within a geographical area.

"(3) THE SOLE PURPOSE OF THE DAVIDSON CO-OPERATIVE IS TO
SERVE ITS COMMUNITY:

"A consumers' cooperative is so closely bound up with its members that there actually is no word in use having a meaning restricted to the machine which the members have constructed to serve them. There is no word for the organization as separate from the owners and users. In this respect it is quite different from an ordinary trading company, or, say, a bank.

"When an employee of a trading company speaks of 'the company' he means the staff from the general manager down, and, possibly, its tangible assets, its buildings, its book accounts, its policies -- even its debts; but he does not intend to include its customers, nor its shareholders. These he feels to be outsiders, people with whom 'his company' must deal.

"When a banker speaks of 'the Bank' he, nor no one

else, regards the depositors as an essential part of the bank.

"But a cooperative is different. 'The Co-op' includes all; and there is no word in use with a less general meaning.

"So the word 'co-operative' must of necessity be used in these pages having at one time its proper meaning, and, at another time, a meaning less embracing. Where the context requires, it should be read with the more restricted meaning, as approximately equal to the expression, 'the company'.

"The Davidson Co-operative is deliberately constituted so that every consumer with whom it deals must receive the same treatment. It is made impossible for the cooperative to make a profit out of one for the benefit of another. With this intention membership is made so easy to attain that no man need remain a non-member except by his own choice, and all members are partners on absolute parity. Even King Midas could not have contrived to turn into gold his relationship with a fellow man who could, at will, declare himself King Midas' partner.

"The cooperative has succeeded in eliminating all distinction between owner and customer. It has no one to make a profit for, no one to make a profit from. Its sole purpose is to serve.

"The cooperative frequently is used by its members to supply the community with services which no money-making organization could undertake. Numerous examples could be given, but that of the tinshop should suffice.

"For years, during the depression, it was impossible for a tinsmith at Davidson to make a living from his trade.

But it would have been extremely awkward for the district if no such services were available. So the cooperative operated the shop at a loss, and paid a tinsmith his wages.

"Every member of the cooperative made his contribution towards the cost by way of a reduction in his annual Patrons' Dividend. But it was the cooperative that supplied the machinery which made the service possible.

"It is to be noted that the value of the tinshop to the community lay largely in the fact that it was standing by. It was ready to make repairs in case of an emergency, but it was not actually called upon to do sufficient work to pay completely its costs of upkeep. Our people were quite willing to pay the cost to keep it standing by, because of the security it gave them.

"The case of the tinshop is cited only as an illustration. We could furnish many others of stand-by services which our members supply for themselves through the medium of the cooperative. They, our members, are really just coming to appreciate how much they can do for themselves in this way; and it now seems likely that within the foreseeable future they will prefer to convert the whole of the Patrons' Dividends into stand-by services which could not be expected to maintain themselves.

"For example, there is a suggestion that the cooperative take on its payroll a physician, a dentist, two or three nurses; and equip a medical centre for them to work from. The cooperative could very well do this, and thus provide health services, mainly preventative, for its entire membership at little or no cost to any member -- except the almost complete elimination of his annual Patrons' Dividend.

"The extension of stand-by services seems so certain to be a development of the near future, and likely to be

of such extent, that one of our present problems is to work out the detailed method for putting the Patrons' Dividend into reverse -- so that, instead of its being the return of an overage, it will become the collection of a deficiency.

"Because the cooperative has no interest in making profits, and because it cannot lose money (having nothing to lose), it provides an ideal vehicle through which to supply community services unprofitable by any reckoning in dollars and cents.

(No. 4 deleted)

- (5) THE DAVIDSON CO-OPERATIVE, LIKE ANY OTHER PROPERLY CONDUCTED CONSUMERS' CO-OPERATIVE, IS NOT A JOINT STOCK COMPANY. IT IS A PARTNERSHIP, a REVOLVING PARTNERSHIP:

"It is a partnership with an unlimited number of members. Any person may enter on equal footing with all others, regardless of race, creed, sex, age or worldly worth. The single limitation is that, this being a partnership of consumers, a partner must need to purchase fifty dollars in goods in the course of a year. And the only reason for even this single limitation is that the handling costs of trivial transactions are unduly high: in fairness to others a fifty dollar minimum must be maintained.

"It is a partnership open to all who find the costs of living onerous and who wish to make use of the device of bulk purchasing to obtain at reduced cost the necessities of life.

"The outward aspects of this partnership, visible to the eye -- the buildings, equipment, undelivered goods and staff-- all taken together form nothing more nor less than the machinery necessary to the partners to adjust their interests

as between one and another. Because there are a great number of partners, and because the interest of each varies from day to day and from hour to hour, the machinery for reconciling their respective interests cannot avoid being intricate and elaborate.

"It is a mistake easily made to look casually upon all this machinery (these buildings, equipment, undelivered merchandise and staff of workfolk) and say that here, obviously, is a merchandising establishment. Only a close knowledge of the working of a cooperative makes it possible to perceive in these nothing but a greatly expanded, greatly modified, general ledger account for settling differences among partners. Nonetheless the second is the fact and the former the delusion: the cooperative plant is not engaged in selling merchandise; it is engaged in distributing equitably among members of a partnership goods which, as agent for the partners, it has acquired for their use -- and then, having done with the distribution, adjusting the money differences that result.

"Because there is a physical resemblance to a trading establishment, much of the thinking upon the subject of co-operatives has been confused. This confusion is apparent even in government enactments, notably in those of the provincial government in Saskatchewan.

"The Saskatchewan Act governing the formation of co-operatives quite evidently began as a variation of earlier legislation having to do with trading corporations. In spite of the many amendments made to this act in the course of its life, it still retains vestiges of its parent. It still clutters about cooperatives quite unnecessary trappings copied from the parent legislation which had to do with limited-liability trading concerns. But, while

providing many of the trappings of limited liability, this act proceeds to reverse itself by unusual provisions to the end that the cooperative (acting for its members) must provide cold cash for every purchase of goods it makes for them.

"Now, the whole point in limitation of liability is that a positive limit is set upon loss to a shareholder which can result from debts incurred by a corporate body. A provision for limitation of liability must be useless and void if corporate debt, itself, is prevented. The second provision cancels out all the meaning in the first, completely.

"A cooperative organized under the Saskatchewan act must, therefore, be something other than a company enjoying benefit of limited liability. It is, of course, a partnership, despite the ambiguities of the act.

"We can find in the order-in-council setting up your Commission no recognition of the fact that a cooperative organization such as ours lies beyond the taxing scope of the Income War Tax Act because in spirit and in fact it is a partnership. But the income of a partnership is never subject to income tax: all income the result of a partnership is taxed in the hands of the individual partners.

"It is not possible for a proper consumers' cooperative to earn a profit for the partners who operate it; but, even if it were possible, it would be a new departure in taxation, and an unfair one, if the cooperative partnership were singled out to be doubly taxed, first as partners and then as individuals.

"(6) THE FUNDAMENTAL PRINCIPLE BEHIND, AND DISTINGUISHING MARK OF, A CONSUMERS' CO-OPERATIVE IS THAT IT MUST BE NON-PROFIT-MAKING:

"It follows, of course, that a cooperative must be

entirely immune from any tax which is levied on the basis of income. It is immune for the same reason that a fence-post is immune: neither has income to tax.

"If we may judge from what we read in the public prints, there is, among people who are familiar with the subject, no understanding of this simple reason for the immunity of cooperatives from income taxation. And many seem to have been misled by the clause in the Income War Tax Act which seems to permit cooperatives to do 20 per cent of their business with non-members. The clause seems to do this; and, taking it at face value, it is easy to jump to an entirely erroneous conclusion that, to the extent of 20 per cent at least, a cooperative may do an ordinary trading business and earn a profit therefrom.

"Thus a clamor has arisen for the taxation of this supposedly profitable non-members' business. Because of this clamor we wish now to deal with the so-called exemption clause of the Act.

"Just what is a non-member with respect to the Davidson Co-operative? There are but two categories:

"(a) The person who, while buying some goods through our organization, has not yet within any twelve months reached a total of fifty dollars -- who, therefore, does not rate inclusion on our Patrons' Dividends list; and,

"(b) The governments, Provincial and Dominion, with their branches and agencies. These frequently find it convenient to purchase through us. This category of non-member merits no discussion here. Governments are quite able to arrange their necessary purchases elsewhere; so, if we were required to pay a special tax on their account, we would have no qualms about telling them to do so.

Result: some inconvenience for the governments, but no tax for us.

"As to non-members of the first category:

"Everyone with even a little experience of such things knows that it is relatively more expensive to handle trivial transactions than those of larger size. It must be clear, for example, that it is more expensive to handle and deliver \$50 worth of peanuts done up in five-cent packages (which is 1,000 packages) than to handle and deliver the same quantity of bulk peanuts to one man. In the latter case the clerk can dispose of the business in a matter of minutes; but he would be managing well if he got rid of the thousand small packages in a full day. And the clerk must be paid for his time.

"Recognizing the truth in this, the cooperative accepts and operates upon the premise that a person whose transactions are so small as not to total \$50 in a year causes expense out of all relation to the expenses caused by a patron whose business is more extensive; and that, for operating purposes, it may be assumed that identical treatment is given to two men when,

"(a) in the case of the trivial business the co-operative assumes the extra expense, and,

"(b) in the case of the more extensive business the co-operative assumes the normal expenses and also makes a refund in the shape of a Patrons' Dividend.

"Of course this is rule of thumb. No one will maintain that the fifty-dollar requirement provides absolute equality. It does not, for example, distinguish properly between two men, one of whose transactions total \$49.90 while the other's total \$50.10.

"But the rule of thumb is rough justice. Any reasonable

man must grant as much. And having granted as much he must also agree that in both cases, one as much as the other, the cooperative has provided its services at bare cost.

"Now, if the cooperative has handled the non-member's business at bare out-of-pocket cost, and is then required to pay a tax on the business, where is the money coming from to pay the tax? Is a member to reach into his pocket to pay a tax on the non-member's business? And if so, why?

"Upon what grounds, then, and to what end, should non-members' business be singled out for taxation? As, obviously, there is no discoverable profit arising out of this business a tax levied upon it must necessarily be of the nature of a tax on turnover. Why should cooperatives be singled out for a tax on turnover?

"Then there is the matter of administration of such a tax.

"To be treated as a cooperative under the Income War Tax Act as it stands today, it is necessary to have 80 per cent of the total business done for members. The percentage indicates that it was set by men who knew what they were doing, and who had a practical and realistic conception of the problems connected with administration of their Act. This is well illustrated from our own experience.

"After the close of every year the Davidson Cooperative can show readily that something in excess of 80 per cent was business done for members. But it does not necessarily follow that the remainder, unaccounted for, was done for non-members. In all probability four-fifths of this remainder was members' business; but it would be troublesome (and unreasonably expensive) to be required to establish as much.

"It is easy to establish the 80 per cent. The information to do so is assembled when the Patrons' Dividends are computed. But if a member has taken away goods, and has not paid for them, while it is business done with a member in all truth, it most certainly is not business which it is sensible to include on the Patrons' list for refunds. So it is omitted. And what tax enforcement officer wants to be put into a position where he must follow through the outstanding accounts of December 31st to check the multiplicity of adjustments? He is in a much more happy position when he can accept 80 per cent proven members' business as indicating so little non-members' business as to be inconsequential. It is to be noted, therefore, that the leeway allowed operates to simplify administration both for the cooperative and the government.

"Then there is the matter of petty purchases. By long-established custom the Davidson Co-operative does not record amounts under 15 cents as eligible for refunds -- simply does not record them -- on the grounds that the extra bookkeeping expense would offset the amount of refund in any event. In the course of a year such petty purchases total many thousands of dollars. They are probably 99 per cent members' business. But who wants to take on the chore of proving as much? The Income Tax Office? We had more than 100,000 petty purchases in 1944.

"All of which, we think, indicates that to talk about taxing non-members' business is much easier than to get down to the job of doing it. The figure for the total of the business to be taxed is not one so easy to arrive at. The costs of enforcement would be in excess of any revenue that the government might expect to gain from it. And so we say that those who framed the law as it now stands showed

sense, they knew what they were doing.

"The only reason why a cooperative pays no tax under the War Income Tax Act is that it has no income to be taxed. It has no income because long ago (long before income taxes were invented) consumers chose the non-profit-making organization as the best for their purpose. Despite widely held opinion to the contrary, imposition of an income tax had nothing to do with their choice. There was no income tax, and no one imagined an income tax, when the Davidson Co-operative was born. And, while we are quite ready to admit that the founders of the Davidson Co-operative were wise men, even we cannot claim for them anything so extraordinary as the ability so to peer into the future.

"(7) IT IS TOTALLY IMPOSSIBLE TO COLLECT A TAX FROM A CONSUMERS' CO-OPERATIVE. IT CANNOT PAY ANY TAX AT ANY TIME UNDER ANY CIRCUMSTANCES:

"This can readily be seen upon examination of the specimen account appearing below, the figures having been copied from an account on the books of the Davidson Co-operative:

<u>The Davidson Co-op. Assn. in account with John Doe</u>	<u>Debit (Interim)</u>	<u>Credit</u>	<u>Balance</u>
1944			
Oct. 1 Balance forward	58.20		58.20
Oct. 1 Patrons' Dividend at 7% on 1943 purchases of \$688.43		48.19	10.01
Oct. 2 Hardware - pipe	1.10		
Oct. 2 Groceries - misc.	4.26		15.37

"Note the credit item for \$48.19. This represents simply a pro-rata share of the sum of money which the co-operative found on hand at the close of 1943 after all expenses had been paid. Had the expenses been larger, the sum to be divided would have been less.

"Taxes, all taxes, whatever they may be called -- income tax, real property tax, licensing fee, or what you will -- are expenses. One and all they act simply to reduce the refund distributed by the cooperative after the close of the year. Every expense is passed on in this direct fashion to the patron of the cooperative. The organization itself, as such, pays nothing. It has, in fact, no means of paying. All properties and all monies of which it has apparent possession are merely held in trust pending an accounting.

"Taxes, all taxes, assessed against a consumers' cooperative can be in effect nothing else than an indirect sales tax collected from the patron of the cooperative. They fall upon him in direct proportion to his annual purchases. They bear no relation to the extent of his income. A man with a large family, however small his income, is likely to pay a larger share of such a 'sales tax' than a man without dependents -- because his necessary purchases are greater. It is the nature of a cooperative that its patrons tend to be those who are under compulsion to pinch pennies in order to survive, and it is exactly these people who would be caught by a special 'sales tax' levied through a cooperative. Those members of a community who are in easier circumstances, and who are better able to pay special taxes, often consider it demeaning and beneath their dignity to be found shaving expenses by purchasing through a cooperative.

"(8) WHAT IS REGARDED BY SOME AS THE 'INCOME' OF A CO-OPERATIVE IS NOTHING BUT A REFUNDABLE PORTION OF A DEPOSIT. A TAX LEVIED ON THIS WOULD PRODUCE NO REVENUE:

"Turn again to the specimen account shown on the preceding page. Consider the item of groceries debited at an interim price of \$4.26.

"This \$4.26 is not the final cost to 'John Doe'. He

knows it is not the final cost. The bookkeeper who made the entry to his account knows it.

"The \$4.26 is only an approximation used until the exact cost can be discovered. It is a deposit required of 'John Doe'. Because it is only a deposit it is calculated to be something more than the exact cost: unless plans miscarry there must be a refund to adjust.

"The sum of these refunds, covering thousands upon thousands of such transactions, makes the cooperative's annual distribution known as the Patrons' Dividends. The name is misleading.

"The refundable portion of the interim charge to 'John Doe's' account never at any time belongs to anyone but 'John Doe.' The cooperative, from the moment when the charge is made to his account, is under obligation to deliver the refund to 'John Doe' when the amount can be ascertained.

"And note this: The \$4.26 is something more than an approximation of the final price. In most cases it is also the common market price for the same goods as charged by other-than-cooperative enterprises in the locality of the cooperative's place of business. It is the final price in a privately-conducted store of the area.

"Now, it is always open to the cooperative to spend a little more on its bookkeeping. By so doing it could safely reduce the deposit, the interim price, and thus reduce the margin which it will refund. It could reduce this margin even to the point where no Patrons' Dividend will be necessary in final adjustment. Then the cooperative would have 'no income' -- and a tax imposed upon it would produce exactly nothing. In such an event the costs of administration of the tax would be a total loss to the government.

"But the effect of the remedy would be the creation of

chaotic price conditions for any private trader in the neighbourhood.

"(9) CONCLUSION:

"The Davidson Co-operative has had thirty years' experience operating a consumers' cooperative. Drawing on our experience, we have made an effort to supply your Commission all information we can relative to the matters of your inquiry.

"We submit that every Canadian has an unquestionable right to purchase his necessities to the best advantage that he can manage. He has every right to seek for himself the cheapest price. If he chooses to bargain, or even to haggle, in order to obtain it, no governmental measure should frustrate his efforts.

"We submit that if he finds that he can bargain better by entering into a partnership with others intent upon the same end, he is quite within his rights in doing so. Again, no governmental measure should stand in his way.

"Today, every special interest in the country is organized, whether manufacturing, transportation or distribution, whether investment, management or labour. The ultimate purpose (or the final effect) of all this organizing is to gain special advantages for the few at the expense of the consumer, or, to be more charitable, to gain advantages with little or no regard for whatever may be the cost to the consumer. In this game of snap-the-whip the consumer is the little fellow at the end who absorbs all the jolts.

"We submit that it would be strange indeed if the government of Canada hindered him, the consumer, in setting up an organization for his own protection. His organization, and his only, represents no special interest: there is no

Canadian who is not a consumer.

"As we have shown, a tax levied against a consumers' cooperative under authority of the Income War Tax Act could not be an income tax at all. It must be, in fact, a sales tax, novel in the respect that it applies against the patrons of a cooperative only. It would be direct government intervention to deprive a man of the very rights we have just mentioned.

"And it would be, furthermore, foolish intervention and a foolish tax: it could so easily be circumvented by the persons against whom it was directed.

"We of the Davidson Co-operative cannot see that any valid argument can be advanced to support a contention that the present Income War Tax Act should be altered so as to levy an exceptional impost upon our members, or, for that matter, upon the members of any proper cooperative.

"We realize, of course, that it takes more than a sign over a door to make a cooperative. There may be organizations parading as cooperatives which have no proper right to use the name. The appointment of your Commission suggests to us that the government has grounds to suspect as much. If such organizations do exist, these may be sheltering behind the title to avoid just taxes, and there may be need for a definition of a cooperative more exactly worded.

"But no change should be made to alter in any way the present effect of the Act upon the genuine consumers' cooperative.

"All of which we submit respectfully.

J. Wilson, Secretary,
Davidson Co-operative
Association Limited."

Mr. Wilson has prepared an additional memorandum which he has asked me to read. There are ten copies available.

He has prepared this memorandum since his recovery. It is as follows:

"We started providing stabling accommodation in 1930 after the people who had been running the livery barn closed up shop. Children driving to school from the country and many farmers simply had to have accommodation for their horses and more especially in the dead of winter. The association was glad to add this to their list of services.

"During the depression there were the odd families who had to appeal to the municipalities for assistance to bury members of their families. To eliminate the need for this we started in 1938 an Emergency Benefit Scheme. A by-law was passed whereby we agreed on the death of a member to pay to the beneficiary an amount equal to 10 per cent of the year's purchases. To provide for accruing liabilities, we put aside each year an amount equal to one-half of 1 per cent of sales. After three years experience the by-law was amended to include the death of the wife of a member. Since then the by-law has been further amended raising benefits payable to 15 per cent of the average of the past three year's purchases. It is our intention to have the by-law again amended at the coming general meeting raising percentage payable to 17 per cent of the purchases.

"In the early part of 1944 at the request of the Town Council of Davidson we took on the job of servicing the community with milk. We would like to submit a couple of letters from the town authorities -- and incidentally the council is composed of men in private business all with the exception of one. These letters illustrate in a very frank manner the fact that the primary motive of a cooperative is to provide service for the people and not to make a profit

out of them.

"As we have consistently over a period of thirty years enjoyed a very large portion of the trade of the community it might be in order to give a brief picture of the condition of our Town.

"Our town municipality has not paid anyone a cent of interest in many, many years. It does not need to play second fiddle to any town of its size in the province or any other province. Gravelled streets, cement sidewalks, lovely town park, it is well fixed with non-profit public works, fourteen-bed hospital, eight-room brick school, skating and curling rink, one of the best in the province even including the cities, brick town hall with splendid auditorium and well equipped fire hall, owes no money on debentures but on the contrary has \$17,000 free balance in its sinking fund. All of which surely suggests that cooperation has had a stimulating effect on community affairs."

Would you like me to read these letters, Mr. Wilson?

THE WITNESS: I would be glad if you would.

MR. FRANCIS: There are two letters dated respectively April 21, 1944 and January 8, 1945. They are as follows:

" TOWN OF DAVIDSON
Davidson, Sask.

April 21, 1944.

"Mr. John Wilson, Manager,
Davidson Co-operative Association Limited,
Davidson, Sask.

Dear Sir,

"This letter is to record and confirm the substance of our discussions of the past week.

"With the retirement next Sunday of Norman Adam from the Dairy Business -- the result of his difficulties in securing satisfactory labour -- the Town of Davidson will be

left entirely without milk. No one else shows any inclination whatever to come to the aid of the townspeople on any terms. Unless you can be persuaded to step into the breach there is no prospect of any relief from the situation: something more than 1,000 people will be entirely deprived of milk.

"This is a problem that the council has been battling with for more than six months now, ever since Mr. Adam closed up shop last fall and was only persuaded to resume business for the winter months in order to ease what was even then a desperate situation.

"We quite understand that you would need to make some considerable capital outlay to prepare your premises with additional refrigeration and storage facilities. We understand that with the breaking up of the Adam's herd your only possible present source of supply will be Saskatoon or Regina, and that you must purchase pasteurized milk and bring it to Davidson for distribution. Because these are the conditions to be faced, if you do agree to add to your functions the service of supplying milk the council will pledge itself to protect you from the uncertainties and losses which might result later due to the peddling by others of small lots of raw milk within the town limits.

"The situation, as said before, is now desperate, and if such an undertaking will influence you, the council will promise you an exclusive franchise to provide milk for the community. In granting such a franchise the council will be influenced by its knowledge of the nature of your organization, which, being a consumers' cooperative, has its only objective that of providing the consumer with the goods and services he needs at the lowest possible cost to him.

"Signed on behalf of the Council of the Town of
Davidson.

J. A. Vopni,
Mayor.

K. H. Ketcheson,
Town Clerk."

.....

" TOWN OF DAVIDSON
Davidson, Sask.

January 8, 1945.

"The Manager,
Davidson Co-operative Association Limited,
Davidson, Sask.

"Dear Sir,

"We have been asked by the Council to express to
your Association its appreciation and satisfaction of the
manner in which milk has been distributed in the Town of
Davidson since your Board kindly agreed to take over the
distribution last April.

"The Council is aware that milk is being sold without
profit and we are sure the service that you are giving to
the residents of our Town is greatly appreciated by all
concerned.

Yours truly,

J. A. Vopni,
Mayor

K. H. Ketcheson,
Town Clerk."

.....

BY MR. PARKER:

Q. Was this brief prepared in language chosen by your-
self or by someone else? A. It was prepared in a democratic
manner. Mr. Hurst, myself and the members, the prominent
members, all had part and parcel in the concoction of it.

Q. In section 5 you say: "The Davidson Co-operative,

like any other properly conducted consumers' cooperative, is not a joint stock company. It is a partnership, a revolving partnership." Your association is a limited company, is it not? A. We don't think of it like that.

Q. Is it a fact that it is a limited company with a charter granted by the proper authorities? A. By the Department.

Q. Why did you apply for a charter under that Act if it was merely a partnership that you wanted to carry on? A. We had to get down to that. As a matter of fact, it makes no difference under what Act we operate; we have no profits at all.

Q. Why did you not set up your association without becoming incorporated? A. We could do that.

Q. Could you? A. Yes.

Q. Why didn't you? A. Because it is purely a partnership; we didn't bother with law or acts or anything else.

Q. You pay no attention to the law. I would not pay any income tax either if I could do that. A. For fourteen years it only amounted to \$90.

Q. It is not a partnership, your association, in any sense of the word? A. It is really a partnership.

Q. What is a partnership? A. We collectively join together to benefit ourselves.

Q. Did you ever hear of a partnership becoming incorporated into a limited company? A. I never bothered my head about that.

Q. Is it not obvious that your whole argument in your brief, from one end to the other, is based on the assumption that this is a partnership, that it is not a limited company?

Isn't that a fair way to sum it up? A. We think of ourselves purely as a body of farmers purchasing goods for ourselves at the lowest possible cost.

Q. I am not concerned about how you think of it but about what it really is, and what this brief is trying to prove. I put it to you, is not the whole argument, or practically all of the argument in this brief, based on the assumption that this association is a partnership and not a limited company? Isn't that so? A. I would not say no.

Q. That is all I have to ask you.

THE CHAIRMAN: You know of course, Mr. Wilson, that you do derive an advantage from being incorporated instead of being a partnership. You know that?

THE WITNESS: Of course, we have never asked for advantages from anyone.

THE CHAIRMAN: As a corporation, your liability is limited.

THE WITNESS: By the membership.

THE CHAIRMAN: I mean your liability to creditors, if you had any.

THE WITNESS: We are getting along fine.

BY MR. VAUGHAN:

Q. Regarding the amount of \$50 which a person has to buy in order to qualify as a member, if he buys only \$25 does the membership cease? A. If he buys only \$25 he is not a patron. A patron is one who buys \$50 during the year.

Q. But if he buys \$25 the next year? A. If he buys \$50 his name is on the ledger. He can't draw money out in cash until he has his whole deposit.

Q. You stress the amount of work involved in purchases of less than \$50. Is there not an advantage in \$50. Does it

not encourage people to buy up to \$50 to get the rebate?

A. They generally do. They try to get all they can.

Q. There is this advantage, that a customer will always try to buy \$50 in order to get the rebate? A. That is a very low amount.

Q. But the customer will always make a point to buy \$50 while in the ordinary store he would not have to. It helps to build up volume? A. There is work in keeping track of these small amounts.

.....

MR. PARKER: Mr. Watson, the President of the Orangeville Association will present the brief on behalf of these organizations.

H. C. WATSON,

President,
Orangeville Co-operative Association
Limited,
having been duly sworn testified
as follows:

BY MR. FRANCIS:

Q. You are President of the Orangeville Co-operative Association Limited? A. Yes.

Q. I understand that you had a meeting of the joint boards of the Rocanville and Orangeville Associations and agreed upon a joint submission? A. Yes.

Q. And you were authorized to make the submission on behalf of both associations? A. Yes.

Q. You are a farmer? A. Yes.

Q. And you are President of the Orangeville Association? A. Yes. I should state that I am a shareholder in the Rocanville Co-operative Association but not a director; I am a director and also president of the Orangeville Association. The brief is as follows:

"Rocanville and Orangeville Co-operative Associations Ltd.
Incorporated under The Co-operative Associations Act
of the Province of Sask.

"To The Royal Commission on Co-operatives,
Regina, Sask.

"Gentlemen,

"Short History:

"Organized cooperation in Saskatchewan began when the farmers formed their early grain buying organizations. These organizations were formed for the purpose of securing for the producer fair treatment mainly in regard to weight, grade and price for his products.

"Livestock Shipping:

"The livestock shipping of the Rocanville Co-operative was an organized attempt to secure better returns for livestock. The usual drover's price for shipping a hog to Winnipeg was \$2. Through cooperative action this price was reduced to \$1 per head and the savings made were returned to the producer.

"The Rocanville Co-operation Association opened its bulk commodity business in January of 1915. This service has developed into a general store. This store along with the livestock shipments has an annual business of three hundred and fifty thousand dollars."

I may say that the livestock shipment covers approximately \$300,000; \$50,000 of it would be other business.
Continuing:

"This cooperative enterprise has been one of the leading factors in developing a good community spirit.

"In so far as it has aided in satisfying and encouraging producers, the cooperative association has been a factor

in developing the production of better grain crops and better livestock. The association has also sponsored activities of community value such as calf and grain clubs and credit unions.

"Orangeville Co-operative Association Ltd.:

"During the depression the farmers of western Canada saw their purchasing power greatly reduced. Operating cost of farm machinery especially farm tractors, was a major item of expenditure. In order to reduce, if possible, their cost of operations so that they might operate their farms on a self-sustaining basis, a group of farmers living in what is known as the Orangeville community formed the Orangeville Co-operative Association, Ltd. Arrangements were made to secure petroleum supplies from Consumers Co-operative Refineries, Regina, and a distributing centre was established in approximately the centre of the farming area. This distributing centre furnished petroleum products to the members of the association. It handled over an eight-year period a total of one million gallons of petroleum products. The savings effected have increased the purchasing power and raised the standard of farming and living in the area.

"Taxes:

"The Rocanville and Orangeville Co-operative Associations, Limited, pay taxes. These taxes are in accordance with the extent and nature of the business carried on by the Associations.

"The Rocanville and Orangeville Co-operative Associations operate according to accepted cooperative principles. They have played their part in the progress and development of their respective communities. Their members believe that in the Co-operative Movement lies a technique which can be

used to solve many of the social and economic problems of our people. They believe that in organized cooperative action, on a mutual self-help basis, lies the answer to many of our problems in fields where such action has not as yet been taken.

"All of which is respectfully submitted,

ORANGEVILLE CO-OPERATIVE ASSOCIATION
LIMITED

per: L. Mountney - Manager

H. C. Watson - President

ROCANVILLE CO-OPERATIVE ASSOCIATION
LIMITED

per: D. Logan - Vice-President."

BY MR. FRANCIS:

Q. Is there anything you would like to add to that?

A. I might add that one of the main reasons for starting up the stock-shipping association was the fact that in hogs and cattle in particular you had to accept whatever price the buyer chose to offer you. We did not have much of an alternative unless half a dozen farmers got together and could secure enough produce, a carload, to ship to Winnipeg. That is the main explanation of how that organization was formed, so that we could get a carload of stock at any time and ship without making unnecessary efforts among the farmers.

THE CHAIRMAN: When you say that both these associations pay taxes what do you mean?

THE WITNESS: Municipal or town taxes.

THE CHAIRMAN: You do not pay income tax or excess profits tax?

THE WITNESS: No.

THE CHAIRMAN: Do you make returns?

THE WITNESS: Yes. I am satisfied they make returns as far as petroleum is concerned. When we organized we had at that time notice that we could get oil and fuel from the Consumers' Refinery in Regina and we had knowledge of that fuel and oil and of the quality of it before we bought it. We could buy oil of good quality for a much lower price than we were paying. We had oil tested by the University in Saskatoon just to make sure that we would get a quality that we could depend on. Before that we could not depend on the quality of the oil or gas we were buying, and that is the main reason we organized as consumers of fuel and oil.

BY MR. ELLIOTT:

Q. About what date was that? A. In Orangeville we organized in 1936. We have been operating eight years.

BY MR. FRANCIS:

Q. At that time the depression was still severe?
A. Yes, and we thought that if we could buy fuel cheaper and get quality for our money it would be a good thing.

Q. Necessity had a good deal to do with driving you into organizing? A. Absolutely.

MR. PARKER: We have no information as to how they handle their finances.

MR. FRANCIS: I understand there is a general request for that.

THE CHAIRMAN: The general request covers that.

MR. PARKER: That will take care of it?

MR. FRANCIS: Yes.

MR. PARKER: In most of them it is set out in the brief.

MR. FRANCIS: Yes, but we have tried to deal with the unusual features.

THE CHAIRMAN: The special features?

MR. FRANCIS: Yes.

-- The Commission thereupon adjourned to meet on Thursday, February 1st at 9.30 a. m.

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